

Meeting of the Board 28 – 30 June 2016 Songdo, Incheon, Republic of Korea Provisional agenda item 12(e)

GCF/B.13/16/Add.01

8 June 2016

Consideration of funding proposals – Addendum Funding proposal package for FP009

Summary

This addendum contains the following three parts:

- a) A funding proposal titled "Energy Savings Insurance for private energy efficiency investments by Small and Medium-Sized Enterprises" submitted by Inter-American Development Bank (IDB);
- b) A no-objection letter issued by the national designated authority or focal point; and
- c) Environmental and social report(s) disclosure.

The documents are presented as submitted by the accredited entity, and national designated authority or focal point, respectively.



Table of Contents

Funding proposal submitted by the accredited entity

No-objection letter issued by the national designated authority or focal point

Environmental and social report(s) disclosure





Funding Proposal

Version 1.1

The Green Climate Fund (GCF) is seeking high-quality funding proposals.

Accredited entities are expected to develop their funding proposals, in close consultation with the relevant national designated authority, with due consideration of the GCF's Investment Framework and Results Management Framework. The funding proposals should demonstrate how the proposed projects or programmes will perform against the investment criteria and achieve part or all of the strategic impact results.

Project/Programme Title:	Energy Savings Insurance (ESI) for private energy efficiency investments by Small and Medium-Sized Enterprises (SMEs)
Country/Region:	El Salvador, Central America
Accredited Entity:	Inter-American Development Bank



Contents

Section A	PROJECT	PROGRAMME	SUMMARY
-----------	---------	-----------	---------

- Section B FINANCING / COST INFORMATION
- Section C DETAILED PROJECT / PROGRAMME DESCRIPTION
- Section D RATIONALE FOR GCF INVOLVEMENT
- Section E EXPECTED PERFORMANCE AGAINST INVESTMENT CRITERIA
- Section F APPRAISAL SUMMARY
- Section G RISK ASSESSMENT AND MANAGEMENT
- Section H RESULTS MONITORING AND REPORTING
- Section I ANNEXES

Note to accredited entities on the use of the funding proposal template

- Sections **A**, **B**, **D**, **E** and **H** of the funding proposal require detailed inputs from the accredited entity. For all other sections, including the Appraisal Summary in section F, accredited entities have discretion in how they wish to present the information. Accredited entities can either directly incorporate information into this proposal, or provide summary information in the proposal with cross-reference to other project documents such as project appraisal document.
- The total number of pages for the funding proposal (excluding Annexes) is expected not to exceed 50.

Please submit the completed form to:

fundingproposal@gcfund.org

Please use the following name convention for the file name: "[FP]-[Agency Short Name]-[Date]-[Serial Number]"



List of abbreviations

Salvadorian Banking Association	IDB	Inter-American Development Bank
Association of Salvadorian Industries	IRR	Internal Rate of Return
National Development Bank of Colombia for Business and Trade	JICA	Japan International Cooperation Agency
National Development Bank of El Salvador	KfW	German Development Bank
National Council of Energy	LAC	Latin America and the Caribbean
National Center for Cleaner Production	LFI	Local Financial Institution
National Commission for the Micro and Small Enterprise	MSME	Micro, Small and Medium-Sized Enterprise
Clean Technology Fund	MYPYME VERDE	Initiative by the Central American Bank for Economic Integration
Energy Efficiency	NDB	National Development Bank
Economic Rate of Return	NPV	Net Present Value
Energy performance Indicator	OR	Operational Regulations
Energy Service Companies	OSARTEC	Salvadorian Organization for Technical Regulation
Energy Savings Insurance	PESAE	Initiative "El Salvador Saves Energy"
Euro	PEN	National Energy Policy
Mexican Trust Fund for Rural Development	SME	Small and Medium Sized Enterprise
Financial Internal Rate of Return	SSF	Superintendence of the Financial System of El Salvador
Fund for Productive Development	ТА	Total Assets
Green Climate Fund	tCO2eq	Tons of Carbon Dioxide equivalent
Gross Domestic Product	TL	Total Liabilities
Greenhouse Gas	ESTP	Energy efficiency services and technology providers
German Development Cooperation	USAID	United States Agency for International Development
Gigawatt/hour	USD	United States Dollar
	Salvadorian Banking Association Association of Salvadorian Industries National Development Bank of Colombia for Business and Trade National Development Bank of El Salvador National Council of Energy National Center for Cleaner Production National Commission for the Micro and Small Enterprise Clean Technology Fund Energy Efficiency Economic Rate of Return Energy performance Indicator Energy Service Companies Energy Savings Insurance Euro Mexican Trust Fund for Rural Development Financial Internal Rate of Return Fund for Productive Development Green Climate Fund Gross Domestic Product Greenhouse Gas German Development Cooperation Gigawatt/hour	Salvadorian Banking AssociationIDBAssociation of Salvadorian IndustriesIRRNational Development Bank of Colombia for Business and TradeJICANational Development Bank of El SalvadorKfWNational Development Bank of El SalvadorKfWNational Council of Energy National Center for Cleaner ProductionLACNational Commission for the Micro and Small EnterpriseMSMEClean Technology FundMYPYME VERDEEnergy Efficiency Energy performance IndicatorOREnergy Savings InsurancePESAEEuro Mexican Trust Fund for Rural DevelopmentSMEFinancial Internal Rate of ReturnSSFFund for Productive DevelopmentTAFund for Productive DevelopmentTAGross Domestic Product CooperationTLGerman Development Gigawatt/hourUSAIDGigawatt/hourUSD



PROJECT/PROGRAMME SUMMARY



GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 4 OF 72

A.1. Brief	A.1. Brief Project / Programme Information					
A.1.1. Proje	ect / programme title	Energy Savings Insurance (ESI) for private energy efficiency investments by Small and Medium-Sized Enterprises (SMEs)				
A.1.2. Proje	ct or programme	Project				
A.1.3. Coun	try (ies) / region	El Salvador / Central America				
A.1.4. Natio	onal designated authority (ies)	Vice Ministry of Development C Mr. Jaime Alfredo Miranda Flam	ooperation nenco			
A.1.5. Accre	edited entity	Inter-American Development Ba	ank			
A.1.5.a. Acc	ess modality	□ Direct				
A.1.6. Exect	uting entity / beneficiary	Executing Entity: BANDESAL, Banco de Desarrollo de El Salvador Beneficiary: BANDESAL, Banco de Desarrollo de El Salvador. Local Financial Institutions and Small and Medium Enterprises				
A.1.7. Proje USD)	ct size category (Total investment, Million	□ Micro (≤10) □ Medium (50 <x≤250)< td=""><td>⊠ Small (10<x≤50) □ Large (>250)</x≤50) </td></x≤250)<>	⊠ Small (10 <x≤50) □ Large (>250)</x≤50) 			
A.1.8. Mitiga	ation / adaptation focus	⊠ Mitigation □ Adaptation	□ Cross-cutting			
A.1.9. Date	of submission of last submission	August 4, 2015 May 10, 2016				
	Contact person, position	Gloria Visconti, Climate Change Lead Specialist / Maria Netto, Lead Capital Markets and Financial Institutions Specialist				
A.1.10. Proiect	Organization	Inter-American Development Bank				
contact	Email address	GLORIAV@iadb.org / MNETTO@iadb.org				
uetalis	Telephone number	+12026233390 / +12026232009)			
	Mailing address	1300 New York Avenue NW, W	ashington DC 20577, USA			

A.1.11. Results areas (mark all that apply)			
Reduced e	missions from:		
	Energy access and power generation (E.g. on-grid, micro-grid or off-grid solar, wind, geothermal, etc.)		
	Low emission transport (E.g. high-speed rail, rapid bus system, etc.)		
\boxtimes	Buildings, cities and industries and appliances (E.g. new and retrofitted energy-efficient buildings, energy-efficient equipment for companies and supply chain management, etc.)		
	Forestry and land use (E.g. forest conservation and management, agroforestry, agricultural irrigation, water treatment and management, etc.)		
Increased	resilience of:		
	Most vulnerable people and communities (E.g. mitigation of operational risk associated with climate change – diversification of supply sources and supply chain management, relocation of manufacturing facilities and warehouses, etc.)		
	Health and well-being, and food and water security (E.g. climate-resilient crops, efficient irrigation systems, etc.)		
	Infrastructure and built environment (E.g. sea walls, resilient road networks, etc.)		
	Ecosystem and ecosystem services (E.g. ecosystem conservation and management, ecotourism, etc.)		





A.2. Project / Programme Executive Summary (max 300 words)

The objective of the proposed Project is to promote investments in energy efficiency (EE) measures by small- and medium-sized enterprises (SMEs) in El Salvador. The IDB will provide a sovereign-guaranteed loan¹, funded with GCF resources, to BANDESAL, a second-tier national development bank (NDB). The GCF reimbursable resources, which will be maintained in a dedicated revolving fund, will be blended with BANDESAL's own resources in order to provide a concessional line of financing available to first-tier local financial institutions (LFIs) so that they can, in turn, offer financing at adequate terms and conditions to SME firms interested in adopting eligible EE measures.² The GCF loan will be complemented with a GCF non-reimbursable grant, which objective is to develop and deploy the non-financial instruments and risk-sharing mechanisms required to support the structuring of technically robust, bankable, private sector investment projects in EE, thus ensuring that the supply of financing for this type of projects meets its demand. The standardized non-financial mechanisms and risk sharing instruments to be developed with the support of the GCF grant include a performance contract for EE projects, adequate protocols for the monitoring, reporting and verification of energy savings, and energy savings insurance/surety products (ESI). The implementation of the financial strategy, with its particular blend of financial and non-financial instruments, sources of financing, and market players, aims at improving SMEs access to financing at adequate terms and conditions for EE projects (supply of financing), to develop a robust pipeline of technically-robust, bankable, EE projects (demand for financing), and, in the medium term, through the development of the aforementioned mechanisms and instruments, to create an enabling environment for the promotion of climate change mitigation investments through the adoption of EE measures by SME firms in the country. This proposed financial strategy corresponds to a proven concept and innovative approach to scale up private sector investments in energy efficiency, as demonstrated by the Global Climate Finance Innovation Lab.³

The following table provides a summary of the financing scheme (see also Section E.6.2):

in Million USD	Loan	Grant	Total
GCF	20	1.7	21.7
BANDESAL	20	-	20
Total	40	1.7	41.7

The project is expected to deliver around 562,037 tCO₂eq in emission reductions over a 15-year period, or an average of 37,469 tCO₂eq per year (Please see also section E.1.2. for details). By applying BANDESAL's EE financing strategy to a penetration rate over the short and medium terms, of 20% of the universe of around 6,232 potentially eligible firms, El Salvador could be expected to reduce its energy-related emissions by 94,811 tCO₂eq annually, an amount equivalent to 1.7% of the country's 2005 energy related CO₂eq emissions (5.6 Million tons of CO₂eq).⁴ In the long term the potential replication to the universe of 6,232 potential eligible firms would result in reductions of 472,688 tCO₂eq annually, an amount equivalent to 8.4% of the country's 2005 energy related CO₂eq emissions (5.6 Million tons of CO₂eq).⁵

¹ According to IDB procedures for public loans, the loan would require: i) signature of a loan agreement between the IDB and BANDESAL; and ii) signature of a sovereign guarantee agreement (Guarantee Contract) between the IDB and the Government of El Salvador, following approval of the loan by the legislative assembly according to national law.

² Please refer to Section B.1 for a detailed description of the Project and a visualisation of the flow of funds (Graph 1). ³ http://climatefinancelab.org/idea/insurance-for-energy-savings/.

⁴ See page 62 of Second GHG Inventory for El Salvador 2013 <u>http://unfccc.int/resource/docs/natc/slvnc2.pdf</u>

⁵ See page 62 of Second GHG Inventory for El Salvador 2013 <u>http://unfccc.int/resource/docs/natc/slvnc2.pdf</u>



PROJECT/PROGRAMME SUMMARY



GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 6 OF 72

A.3. Project/Programme Milestone				
Expected approval from accredited entity's Board (if applicable)	June 30, 2016			
Expected financial close (if applicable)	Not applicable			
Estimated implementation start and end date	Start: September 1, 2016 End: August 31, 2021			
Project/programme lifespan	5 years			



FINANCING / COST INFORMATION GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 7 OF 72



B.1. Description of Financial Elements of the Project / Programme

Under the proposed project, GCF grant resources (USD1.7 Million) will be used to support the structuring of the risksharing instruments and non-financial mechanisms required not only to build trust among SMEs and first-tier LFIs on EE investment projects, but also to develop a pipeline of technically-robust, bankable, EE projects. GCF loan resources (USD20 Million) will be intermediated by the IDB to BANDESAL, a second-tier national development bank, under a sovereign guarantee granted by the Republic of El Salvador. The proceeds of the GCF loan resources, which will be maintained in a dedicated revolving fund by Bandesal, will be blended with an equivalent amount of BANDESAL's own resources to establish a concessional credit line available to all first-tier LFIs so that they can in turn finance eligible SME investment projects in EE Any loan recuperations and re-payments by first-tier LFIs will be re-used to finance eligible EE projects.

In particular, GCF resources will support BANDESAL in:

- (i) Developing a financing strategy, including tailored credit and risk sharing instruments (concessional credit line and an energy savings insurance/surety product, respectively), as well as non-financial, such as standardized instruments to support the deployment of the insurance product and the demand for financing for EE investments by SMEs;⁶
- (ii) Engaging LFIs in the deployment of the new financial, non-financial, and risk mitigation products;
- (iii) Identifying and engaging technology providers and other key market stakeholders to support the demand for financing through the development of technically-robust, bankable projects;
- (iv) Developing standards and mechanisms for adequate monitoring, reporting, and verification of energy savings resulting from supported SME's EE investment projects;
- (v) Deploying the credit line to ensure that long term financing is available in the market, which together with the risk-sharing instruments and the non-financial mechanisms form an integrated strategy to promote LFIs further engagement and financing of eligible EE private sector investment projects.

Activities (i) – (iv) will be financed with non-reimbursable grant resources from the GCF, to address real or perceived risks and barriers that are currently preventing EE investments by SMEs. Activity (v) will be financed through a dedicated long term credit line made available to first-tier LFIs at sufficient concessional conditions by BANDESAL so they are interested and engage to in turn on-lend to SMEs interested in financing EE eligible investment projects.⁷

BANDESAL has, with support from the IDB, commissioned an analysis on the challenges and opportunities that confront Salvadorian firms to invest in EE measures. Although the aforementioned analysis suggests a large potential for EE investments by Salvadorian firms (please see Annex 2), it also identified many constraints to investing in and financing EE projects. Chief among those constraints were lack of knowledge among LFIs and final beneficiaries of the returns and risks associated with those projects, as well as lack of trust by investors and their financiers in the capacity of EE services and technology providers (ESTP) to deliver promised energy services. The proposed Project addresses these barriers and real or perceived risks through a combination of financial and non-financial instruments geared to building trust in the market for this type of project and hence scale up firms' investments in EE.⁸

As was argued before, the project is expected to increase levels of investments by SMEs⁹ in EE projects through a combination of financial and non-financial instruments, including long term funding at adequate conditions by BANDESAL to

⁶ Please see Annex 12 for an analysis of the risk-mitigation instrument by the <u>Global Climate Finance Innovation Lab</u>.

⁷ The risk-transfer instruments expected to be provided by private sector surety and/or insurance firms operating in the local market are likely to be reinsured with international reinsurance firms. For a detailed description of the loan approval process using the risk mitigation mechanisms see Annex 9.

⁸ For an analysis of the proposed risk instruments to be applied for the Salvadorian Market, see the analysis in the Global Climate Finance Innovation Lab in Annex 12. The proposed project will benefit from ongoing similar experience in Mexico and Colombia and will facilitate the standardization and adaptation of risk-mitigation instruments and non-financial mechanisms in the Salvadorian local market in order to address existing constraints and barriers for EE investments by SMEs in that country. See also Mills, E. (2003). <u>Risk transfer via energy-savings insurance</u>; Goldman, C. A. (2010). <u>Energy Efficiency Services Sector: Workforce Education and Training Needs.</u>; Jones, et al. (2014). Quantifying the Financial Value of Insurance for Energy Savings Projects.

⁹ The project's beneficiaries will be those SMEs in all sectors of the economy that use in their production process technologies eligible under the program (air-conditioning, motors, refrigeration, and boilers) and that could generate enough energy savings (by substituting old equipment for new) to repay the loans assumed in making the investment





GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 8 OF 72

eligible first-tier LFIs so that they engage and can, in turn, provide sub-loans at concessional and long term conditions to eligible SMEs interested in undertaking investment projects in eligible EE technologies. It is expected that, in the short term, the credit line from BANDESAL will leverage at least an additional 20% in equity from SMEs' own capital (see also Section E.6.2).¹⁰ In the medium to long term, as LFIs and SMEs become increasingly aware of the real risks and returns associated with EE investments, each dollar in financing provided by BANDESAL could leverage 1.5 dollars in private sector investments through LFIs co-financing and the SMEs own capital contributions to their EE projects. As said before, the financing strategy proposed under this Project combines: (i) a financing line with adequate terms and conditions for EE investment projects; and (ii) a series of market development activities and risk mitigation instruments intended to stimulate the demand for financing by SMEs for eligible EE investment projects. This combination is expected to achieve the Project's outcomes in terms of energy savings, tCO₂eq emissions reductions and leveraged private sector investments in EE. It follows the risk sharing model amply analyzed by the *Global Climate Finance Innovation Lab* (Annex 12), which proposes the blending of six financial and non-financial instruments designed to work in tandem to overcome barriers and mitigate real or perceived risks associated with EE investments by firms (see Figure 1 below).



in new equipment. The incentive for banks to finance firms to undertake this type of investments, even if those firms are small, is associated with the fact that the proposed project would include a series of instruments, such as a standard contract, independent technical validation and an EE performance insurance / surety for EE projects to be contracted by ESTPs for the benefit of investing SMEs, which significantly lower the risks to the investment. In addition, banks will not have to assume additional project transaction costs, since ESTPs will have to structure the projects and present them together with beneficiary SMEs to banks in order to gain access to investment credit.

¹⁰ The assumption of a debt-equity ratio of at least 4 is in line with common standard banking practices for SME financing in Latin America and the Caribbean. It should be noted that as the GCF funds will be allocated in a dedicated financing line with an expected lifetime of at least 15 years, it is estimated that each GCF\$ will finance between 2 to 3 EE sub-projects in the lifetime of the financing line. This means that the leveraging of financing presented in the Project could be 2 or 3 times more during the lifetime of the financing line.

¹¹ Lending to productive investments in El Salvador accounted in 2013 and 2014 for just 19% (US\$1,498 million) of total lending by the financial system; and of these, only 7% (US\$509 million) of the credit was extended to SMEs for terms longer than two years (medium- and long-term credit) (See: Database Central Bank of El Salvador, 2014). Access to long term credit is indeed identified as one of the most important barriers for SMEs competitiveness (See: "Doing business in a more transparent world 2012 – economy profile: El Salvador," WB-IFC, 2012). Furthermore, in recent years El Salvador's credit-to-GDP ratio has been lower than for other Central American countries and the Dominican Republic (9 points below) and for countries with a similar per capita income, adjusted for purchasing power parity (PPP): Algeria, Armenia, Belize, Bhutan, Egypt, Jordan, Namibia, Paraguay, and Sri Lanka (1.9 points lower).



FINANCING / COST INFORMATION GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 9 OF 72



through its network of first-tier LFIs, medium and long-term credit to SMEs to finance eligible EE investment projects. Figure 2 depicts the flow of funds and the ESI transaction under the proposed Project.

Figure 2: Flow of Funds and ESI Transaction¹²

Financial Flow

ESI Transaction



The complete financial flow is as follows:

The GCF provides a USD20 Million loan and a USD1.7 Million non-reimbursable grant to BANDESAL, through the IDB as an accredited entity to the GCF. Without the combination of GCF loan and grant resources, it would be very difficult to promote EE investments. The proceeds of the GCF loan will be blended with an equivalent amount of BANDESAL's own resources to structure and establish a dedicated concessional financing line¹³ that is made available to first-tier LFIs in the local credit market so that they would have the incentive to, in turn, offer sub-loans at medium and long terms required for the payback period of EE technologies and concessional conditions to SMEs interested in investing in eligible EE technologies. (See illustration in Figure 2). The grace and maturity periods of the sub-loans will be established taking into account the costs and returns of eligible technologies, ensuring that those periods are sufficiently long so as to allow the monetized energy savings to cover recurrent loan obligations.

Also, the concessionality of GCF loan resources will be passed onto final beneficiaries in lower interest rates than the ones currently offered in the market in order to stimulate EE investments and hence generate a powerful demonstration effect in the local credit market¹⁴. Indeed, part of the concessionality of GCF resources will be transferred to final beneficiaries as a

¹² A step-by-step explanation is illustrated in Annex 9 and the functioning of the different risk sharing mechanisms is explained in this section.

¹³ The dedicated financing line is expected to have a lifetime of at least 15 years. The contractual agreement between IDB and Bandesal will ensure that any loan recuperations and re-payments will be kept in the dedicated revolving fund and be used to finance similar EE projects. In other words, the financing line should finance more than one project with the same GCF USD (it is estimated that each GCF\$ will finance between 2 to 3 EE sub-projects in the lifetime of the financing line). (see also section E.6.2 below).

¹⁴ The concesionality is reflected in the interest rate and period (up to 5 years) that Bandesal provides to the intermediary banks (local financial institutions - LFIs). The business as usual intermediary fee that Bandesal charges



FINANCING / COST INFORMATION GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 10 OF 72



success fee, either in the form of a rebate or an ex-post reduction in the interest rate that they confront to finance their EE investments, once their investments in energy efficiency measures have been verified by an independent technical verifier. The specific arrangements relating to the operation of the dedicated revolving fund and the use of any pre-payment or recuperation, as well as the conditions for gaining access to the credit line and the sub-loans will be established through the contractual agreement between the IDB and BANDESAL and the Project "Operational Regulations (OR)" agreed between both institutions. The interest rates and other loan conditions granted to SMEs by LFIs will be reported semi-annually by BANDESAL and the IDB to the GCF.

The GCF grant will help to structure the demand for EE financing as it supports the development of standardized instruments (performance contracts; monitoring, reporting and verification methodologies; and insurance/surety products) which will establish the rules of the game for all relevant market players and hence will help to build trust among them.¹⁵

The following table provides a summary of the barriers and risks confronted by EE projects, as well as the financial and nonfinancial instruments proposed to overcome those barriers and risks.

Mechanisms	Lack of trust	Not a priority	No access to financo	No experience in EF	Notes
1. Financing scheme	1				Increase supply of financing for SMEs wanting to invest in EE
2. Standarised performance contract					Establish the "rules of the game" between SMEs and technology suppliers
3. Energy savings insurance					Cover SMEs in case promised energy savings are not achieved
4. Validation and verification					Validate suppliers, projects and verify reporting of energy savings
5. Capacity building					Train technology suppliers and financial institutions in "selling" EE
6. Marketing strategy					Promote EE to increase awareness and drive demand for investment in EE

Table 1: Financial and Non-financial mechanisms versus barriers to EE

<u>1. Financing scheme</u>. A GCF loan granted to BANDESAL, through the IDB as an accredited entity of the GCF, will enable the Salvadorian public sector financial institution to provide concessional funding at longer loan and grace periods to first-tier LFIs so that these in turn could offer SMEs concessional credit at adequate terms and grace periods to finance eligible EE investment projects. The credit line with adequate terms and grace periods addresses an important barrier on the supply side of financing for EE investment projects: that is, the limited availability of medium and long term finance in the domestic financial market for the adoption of EE technologies¹⁶, which due to their higher cost relative to traditional technologies require longer payback periods to make their adoption by SME firms economically and financially viable and the lack of appetite from LFIs to finance EE investments because of their perception of risks and costs associated to EE projects and as LFIs often do not account for cash flows of EE savings as part of their financing lines. In order to also ensure higher participation of SMEs in the program, the medium and long term financing will be complemented with a success fee to SMEs

to the LFI when providing funding is around 6.5%. The GCF concesionality would allow to reduce this fee up to 3.625% (including the 0.75% of the GCF). While the concessional funds that would be provided by the GCF will not affect or benefit the market SPREAD that the banks charge to the SMEs (which is influenced by SMEs credit risks and current market conditions), they will allow LFIs to offer reduced interest rates to SMEs as compared to current market rates (see Annex 3 for a more detailed explanation).

¹⁵ Mazzucato, M., & Penna, C. C. (2015). <u>Beyond Market Failures: The Market Creating and Shaping Roles of State</u> <u>Investment Banks</u>.

¹⁶ Lending to productive investments in El Salvador accounted in 2013 and 2014 for just 19% (US\$1,498 million) of total lending by the financial system; and of these, only 7% (US\$509 million) of the credit was extended to SMEs for terms longer than two years (medium- and long-term credit).





GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 11 OF 72

(in the form of reduced interest rates to repay the debts) once they would have installed new equipment's and proved to have saved energy. Annex 12 presents a detailed analysis on the barriers to investments in EE.

2. Standardized performance contract. The EE market in El Salvador is still in its early stages, and there are no clear and established rules on how to deal with "future energy savings" and allocate the risks related to achieving those savings. The proposed Project introduces a contractual arrangement between a potential client (SME) and a ESTP in which the risks associated with achieving those future energy savings are transparent and equitably shared by both parties in the contract. Indeed, the contract provides a performance guarantee mechanism through a contractual retention (around 25%) that is deducted from the total value of the project to be paid to the ESTP and retained by the client until the ESTP demonstrates that it has delivered the contracted energy savings. The purpose of the retention is to ensure that the ESTP properly complies with the energy saving commitments established under the contract. The retention is gradually released upon verification that the CSTP will deliver the contracted energy savings (which should be large enough to pay back for the loan assumed by the SME), but also provides the ESTP with the incentive to deliver the contracted energy savings. Furthermore, the existence of a standardized contract allows LFIs to process loan applications in a standardized manner, reducing not only their transaction costs but allowing them to develop standardized approaches to assess the risks associated with EE projects.

Figure 3 shows how the retention would work under two different cases. Case 1 refers to a project where the actual energy cost (the real energy consumption) was the same as the estimated and contracted energy cost. In this case, the project achieved the promised savings and the SME should pay to the ESTP the corresponding retention for the measured period. In the second case, the actual energy cost is higher than the expected and contracted energy cost. In this second case, the ESTP should compensate the SME for the monetary damage associated with the energy savings shortfall. This compensation can come, depending on its magnitude, totally or partially from the retention.



Figure 3: Contract Retention Scheme

<u>3. Energy savings Insurance</u> (ESI) - As highlighted in the Climate Finance Lab Analysis (Annex 12), and already piloted in other countries, a financial risk mitigation instrument in the form of a surety that partially covers the energy saving commitment made by the ESTP under the contract would help to minimize the performance risk of the project for SMEs and their potential financiers. To that effect, local insurance/surety companies will be engaged in the program, and these companies are likely to reinsure their policies with international re-insurance companies. The insurance has a similar expected positive effect on the trust and on the access to finance barrier as the standardized contract. It addresses the lack of confidence and experience of SMEs and LFIs in the risks and returns associated with EE projects and thus increases their interest in investing in and financing them, respectively.

Figure 4 shows how the insurance/surety would work. In the example, the actual energy cost was much higher than expected and the ESTP should compensate the SME for not having achieved the promised savings. This compensation would come from the retention withheld and, if that retention is not enough to compensate the SME for the shortfall in monetized energy savings, from calling on the energy saving insurance/surety policy.



B



<u>4. Validation and verification mechanisms</u> A set of technology-specific, independent validation procedures will be carried out by a third party with strong credentials on EE normalization and certification. Its role will include: a) validation of the ability of an EE project to deliver expected and contracted energy savings; b) validation of the capacity of the ESTP to deliver the project; c) verification that the equipment has been installed according to the proposal and that the old equipment has been properly decommissioned and disposed of to avoid GHG emissions leakages and other negative environmental impacts; d) verification of reported energy savings; and e) arbitration in case of conflict between the SME and the ESTP on the actual energy savings. The validation mechanisms provide the investing SME as well as to the LFI with the assurance and trust that the energy savings proposal is attainable and that the technology provider has adequate capacity, and that potential conflicts on the project's energy saving performance would be solved through arbitration by an independent, technically qualified party. This assurance is expected to increase the willingness of SMEs and LFIs to invest in and finance EE projects, respectively. It is important to note that the design of the formats, protocols and methodologies which will be developed by the independent technical validator for each of the technologies eligible under the program, with feedback from BANDESAL, the IDB, and ESTPs, will be based not only on international best practices and standards, but more importantly on the technical regulations in EE available for those technologies in the country at the outset of the Project.

5. Capacity building The proposed project is expected to develop the capacities of ESTPs to develop a new line of business - the sale of guaranteed energy savings rather than just energy efficient technologies. Also, it should support the development, diffusion and dissemination of information on new risk mitigation products, such as standard contracts, monitoring, reporting and verification methodologies, and ESI products, among relevant stakeholders. These efforts will be carried out in coordination with existing initiatives and organizations (such as for instance 4E-GIZ). These capacity building efforts should help SMEs to prioritize EE investments as one part of their priority investments, and build their trust in the capacity of ESTPs to provide high-quality technical services. They should also help LFIs to build their knowledge and experience of the risks and returns associated with this type of project. Together, these capacity building efforts should lead to an environment in which both ESTPs and LFIs see EE investments as an attractive business opportunity and start to actively promote the adoption and financing of EE measures to their potential SME clients, respectively. The capacity building will include a gender perspective to encourage the participation of women in the capacitation of ESTPs, LFIs and validators using the most appropriate tools in each case. In addition, the content of the trainings may include gender issues related to the use of EE in SMEs or the access to finance (see also section H1.2, Output 4).

<u>6. Marketing strategy.</u> A key aspect of making EE markets take off is to raise awareness and engage key actors in EE opportunities. Potential investors (SME clients), LFIs and ESTPs are targeted, and connected. As part of the proposed project, an initial pipeline of technically robust, "bankable" EE projects will be supported to demonstrate the viability of the proposed financing strategy and attract the interest of the market. The marketing strategy addresses primarily the lack of prioritization for EE investments by SMEs. By connecting the relevant actors, it closes the information gap about the opportunities and realistic cost savings that EE investments would allow. The marketing strategy will include a gender perspective that will enable women-owned and –led SMEs benefit from loans offered by the Project, while ensuring its commitment to the use of EE, including the identification of specific EE projects by women-owned and –led SMEs and promotion of these types of projects and beneficiaries with LFIs.





One salient feature of the proposed project is that the risks associated with each sub-project are shared by the different players involved in its design and implementation.

SMEs take out loans with LFIs against their balance sheets to finance their EE projects. However, unlike alternative financing schemes, part of the risk of the projects is now assumed by the ESTPs through a performance contract which stipulates both the withholding of part of the contract's value (around 25%) to be disbursed as energy savings materialize, and an ESI/surety policy to be contracted by ESTPs in favor of SME clients investing in EE eligible projects. In addition, for an SME owner who is not knowledgeable on how to structure and implement EE projects, it is very reassuring that: i) the projects are being structured by experts; ii) both the technical quality of the projects and of the experts who structured them are being validated by an independent entity that specializes in the normalization and certification of standards in the energy sector; and iii) if a conflict arises between an SME and an ESTP regarding energy savings attained, an independent entity specializing in the normalization and certification of standards in the energy sector will rule on the conflict.

Apart from the real guarantees demanded to grant a loan to SMEs, LFIs would be reassured on several grounds that the loan is likely to be repaid. First, the projects were structured by experts in EE, and both the technical quality of the projects and the experts who structured them were validated by an independent entity specializing in the normalization and certification of standards in the energy sector. Second, if contracted energy savings do not materialize, the shortfall will be covered by the aforementioned contractual withholding and, if it is not large enough as to cover that shortfall, by calling upon the ESI/surety policy.

The insurance or surety company that provides the ESI product is likely to be reassured that the ESI/surety policy will not be called upon for the following three reasons. First, if the ESI is based on a surety, the surety company is likely to demand from the ESTP real guarantees in order to issue the policy, discouraging those players from letting the policy to be called upon. Second, withholding part of the ESTP contract value would be the first source of resources for compensation if a shortfall in energy savings materializes. And third, the insurance or surety company is conscious that: i) the projects are being structured by experts; ii) both the technical quality of the projects and of the experts who structured them are being validated by an independent entity specializing in the normalization and certification of standards in the energy sector; and iii) if a conflict arises between a SME and an ESTP regarding attained energy savings, an independent entity specializing in the normalization and certification of standards in the energy sector will rule on the conflict.

Finally, ESTPs, apart from benefitting from increased demand for their products and services, have the assurance that their performance contracts will be paid in full provided that they fulfil the commitments in terms of energy savings under those contracts. In addition, if actual energy savings exceed contracted energy savings, the excess is shared by the SME and the ESTP equally.

Regarding project costs, Table 2 below presents a breakdown of cost estimates for total project costs and GCF and BANDESAL's financing by components and sub-components in USD.

Table 2: Overview of Project Cost					
Component	Sub-component (if applicable)	GCF	BANDESAL	Currency of disbursement ¹⁷	
Grant (provided by GCF) Development Phase	Component 1 Development of ready-to-use, tailored financial strategy	0.68		<u>million USD (\$)</u>	
Sub-component 1.1	Structuring of standardized performance contract (Legal consultant and key stakeholder coordination)	0.06		<u>million USD (\$)</u>	
Sub-component 1.2	Design of MRV system (Methodology, validation procedures, protocols, formats, reporting and monitoring procedures and key stakeholder coordination)	0.11		million USD (\$)	
Sub-component 1.3	Financial risk mitigation instrument (Legal consultant and key stakeholder coordination for the insurance/surety product)	0.04		million USD (\$)	

¹⁷ *El Salvador's local currency is USD.





GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 14 OF 72

Sub-component 1.4	Capacity building (Programme for technology solution providers, awareness for LFIs, training for BANDESAL officials)	0.12		million USD (\$)
Sub-component 1.5	Marketing strategy (Initial pipeline of bankable projects/pilots, incentives for pilots, awareness raising information and events)	0.18		million USD (\$)
Sub-component 1.6	Management information system (Information technology, workflows, web design, link with BANDESAL's IT system)	0.08		million USD (\$)
Sub-component 1.7	Systematizing the monitoring and evaluation of BANDESAL Credit line (Detailed implementation strategy for monitoring impacts)	0.01		million USD (\$)
Sub-component 1.8	Institutional Technical support (Local EE expert – facilitating the implementation)	0.08		million USD (\$)
Grant (provided by GCF) Operational Phase	Component 2 Support implementation of the financing strategy	1.02		million USD (\$)
Sub-component 2.1	Support in awareness raising and capacity building efforts of beneficiaries and institutional technical support (Training, Events and Local EE Expert)	0.13		million USD (\$)
Sub-component 2.2	Support in the selection and launching of pilot projects including promotion of success fees in the form of reduced interest rates for SMEs that would have proved to have installed technologies and saved energy	0.50		million USD (\$)
Sub-component 2.3	Monitoring and reporting of the programme (mid-term and final impact analysis, and lessons learnt for scale-up in the same country)	0.11		million USD (\$)
Sub-component 2.4	Inputs to the national regulatory framework for EE based from the experience and lessons learnt acquired from the structuring and implementation of the Project	0.2		million USD (\$)
Contingencies		0.08		million USD (\$)
Loan	Component 3 Loan for a financing line for ESI projects	20.0	20.0	million USD (\$)
Total GCF Contribution		21.7		million USD (\$)
Total BANDESAL Contribution (Annex 5)			20.0	
Total GCF+ BANDESAL's Resources			41.7	million USD (\$)

The following table 2a differentiates the grant expenses by type:

Expenses by type (Grant)	in USD
Consultant services	980,000
Pilot project support success fee/interest rebates	500,000
Travel	70,000
Meeting Logistics	50,000
Publication	20,000





GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 15 OF 72

Contingencies	80,000
Total	1,700,000

Please see Annex 14 for more detail.

Looking to the medium term, given the potential energy savings expected to result from financed EE sub-projects, and the risk mitigation instruments and non-financial mechanisms developed through the proposed project, Salvadorian SMEs and LFIs should become more confident in investing in and financing EE projects, respectively, paving the way for the long term sustainability and transformational impact of the project beyond GCF, IDB and BANDESAL support (see Section D.2.).

B.2. Project Financing Information

	Financial Instrument A		Amount	Currency	Currency Tenor		Pricing			
(a) Total project financing	(a) = (b) + (c)		41.7		Options					
	(i) Senior Loans		20		million USD (\$)	(20) yea	(20) years		(0.75) %	
	(ii) Subordinated Loans		n.a		<u>Options</u>					
	(iii) Equity		n.a.		<u>Options</u>					
	(iv) Guarantees	6	n.a.		<u>Options</u>					
(b) GCF financing to	(v) Reimbursable n.		n.a.		<u>Options</u>					
recipient	(vi) Grants * 1.7		1.7		million USD (\$)					
	* Please provide economic and financial justification in <u>section F.1</u> for the concessionality that GCF is expected to provide, particularly in the case of grants. Please specify difference in tenor and price between GCF financing and that of accredited entities. Please note that the level of concessionality should correspond to the level of the project/programme's expected performance against the investment criteria indicated in <u>section E</u> .									
	Total requested (i+ii+iii+iv+v+vi)			21.7	million USD (\$)					
(c) Co- financing to recipient	Financial Instrument	al Amount		Currency	Name of Institution	Tenor	Prie	cing	Seniority	
	Senior Loans Options Options	<u>20.0</u>		<u>million</u> USD (\$) Options Options	BANDESAL	(5-7) years	(6.125- %	6.875)	<u>pari passu</u> <u>Options</u> <u>Options</u>	
	<u>Options</u>			<u>Options</u>					Options	
	Lead financing institution: BANDESAL									
	* Please see Annex 5 for the BANDESAL's Confirmation letter for its co-financing commitment.									
(d) Financial terms between GCF and AE (if applicable)	In cases where the accredited entity (AE) deploys the GCF financing directly to the recipient, (i.e. the GCF financing passes directly from the GCF to the recipient through the AE) or if the AE is the recipient itself, in the proposed financial instrument and terms as described in part (b), this subsection can be skipped.									





GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 16 OF 72

If there is a financial arrangement between the GCF and the AE, which entails a financial instrument and/or financial terms separate from the ones described in part (b), please fill out the table below to specify the proposed instrument and terms between the GCF and the AE.

Financial instrument	Amount	Currency	Tenor	Pricing	
		Options	() years	()%	

Please provide a justification for the difference in the financial instrument and/or terms between what is provided by the AE to the recipient and what is requested from the GCF to the AE.

B.3. Financial Markets Overview (if applicable)

Structure of the Salvadorian Financial System

The financial system of El Salvador is composed of a total of 43 entities, including bank deposits, cooperative banks, and savings and loans associations. All of them are supervised and controlled by the Superintendence of the Financial System of El Salvador (SSF).

These entities coexist with two other types of entities: (i) savings and loans cooperative societies (credit unions / workers banks) and savings and credit cooperative associations; and (ii) federations of cooperative banks. The savings and loans cooperative societies, which include 48 credit unions and 7 workers banks, are associated under the Federation of Credit Unions and Workers Banks – Fedecrédito, and are all first-tier clients of BANDESAL. It is very important to note that all the workers banks and Fedecrédito are supervised by the SSF.

According to June 2013 figures, the total assets (TA) of the Salvadorian financial system amounted to USD15,229 Million, equivalent to 61.1% of GDP at current prices. Within this total, the banking system accounted for 94% of TA, equivalent to USD14,238 Million. Loans constituted the banking system's main asset and totaled USD10,379 Million, equivalent to 68% of the TA the financial system.

The banks total liabilities (TL) amounted to USD13,016 Million, concentrated mainly in deposits from the public, which reached USD10,324 Million (80% of TL). Finally, the consolidated patrimony of the banking system totaled USD1,876 Million.

Regarding non-banking financial entities, their capital amounted to USD281 Million in 2013, they held deposits of USD575 Million and their loan portfolio reached USD1,059 Million, distributed over 205,421 loans. These figures show that such entities are focused primarily on granting small loans to its members.

Recent Performance of the Salvadorian Financial System.

Recent data shows that the system remains well capitalized and continues to exhibit comfortable levels of profitability and liquidity. Indeed, to December 2013, its indicators showed: (i) an increase in its capital requirement level, exceeding 550 basis points over the regulatory minimum of 12%; (ii) a relationship between the value of its liabilities and its assets of 85.4%, lower by 2 percentage points to that recorded at the end of 2008, suggesting that the generation of value on the asset side has been associated with smaller increases in debt; (iii) return on assets and on equity exceeding 1.6% and 12%, respectively; (iv) a sustained reduction since 2010 in the percentage of its past-due portfolio with respect to the value of the gross portfolio that fell from the 4.01% in December of that year as a result of the international financial crisis, to 2.4% in December, 2013; (v) adequate levels of liquidity, since short-term financial investments in December 2013 reached 20% of total investments and in conjunction with cash balances represent 18.4% of TA; and (v) a recent trend towards the acceleration in the growth of credit in real terms. Indeed, credit to the private sector as a percentage of GDP reached 41.6% by December 2013, an increase of 500 basis points in relation to the low level registered in March 2011 in response to the consequences of the international financial crisis. El Salvador, from this perspective, has little financial depth.

Not only is the financial depth of El Salvador low for a country at its level of economic development, but most of the credit granted by Salvadorian financial institutions to the private sector is of very short term, on average less than 3 years.¹⁸ This is due in part to most of its liabilities being concentrated in very short-term instruments. Indeed, at the end of

¹⁸ The average term of the loans granted by credit institutions is 2.88 years, according to data from the SSF.



FINANCING / COST INFORMATION GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 17 OF 72



December 2013, 96% of the system's deposits had a maturity of less than one year, with 60% being demand deposits. With this funding structure, the appetite of financial institutions for providing medium- and long-term credit is small, given the potential mismatch between the maturity of assets and liabilities, thereby limiting the ability of financial institutions to fully meet their role in terms of supporting economic growth through the provision of investment credit to the private sector. This situation results in particular in a lack of medium and long term financing for productive investments (i.e. financing for fixed assets) for SMEs, - according to statistics from the Central Bank of El Salvador, between 2013 and 2014 only 19% (US\$1,498 million) of total lending by the financial system was for productive investments; and of these, only 7% (US\$509 million) was in the form of medium and long term finance to SMEs.

In addition, the Salvadorian Economy does not have a liquid, long-term capital market. Daily market transaction volumes are below USD1 Million and debt paper issues are of less than a year. Typically, SMEs do not resort to this type of financing, and its short-term maturity makes it unattractive for financing EE investments.

In a context where the availability of medium- and long-term credit for private investment is so limited, BANDESAL has been one of the main sources, if not the main one, for that kind of credit, particularly for SMEs. Also, because it operates through a vast network of first-tier LFIs, it has a significant capillarity in the local credit market. For these reasons, and the government priority to promote private sector investments in EE measures, the Government of El Salvador is supporting BANDESAL efforts to gain access to GCF funding, through the IDB as an accredited entity. It is worth emphasizing that the IDB, in preparation of another loan with the objective of improving SMEs access to investment credit in all sectors of the economy, and recently approved by its board, evaluated and found adequate BANDESAL fiduciary, financial and environmental and social safeguard.¹⁹

The proposed Project aims to replicate the ESI business model and financing strategies²⁰ which were developed by the IDB first with <u>Bancoldex</u>, an NDB in Colombia, and later with <u>FIRA</u>, an NDB in Mexico (see Table 3 below), with support of the Clean Technology Fund in both cases and also of the Government of Denmark in the case of FIRA. The proposed EE financing strategy was assessed by the <u>Global Innovation Lab for Climate Finance</u> and endorsed and recommended as one of the four most promising strategies for promoting private sector investments in climate change mitigation (see Annex 12). Table 3 below summarizes the details of the interventions in Colombia and Mexico. A key lesson that emerges from these experiences is that the grant component is crucial to support the structuring of the demand for financing for EE investment projects so that it is able to meet supply.

	Colombia	Mexico
Sector	Hotels and Hospitals	Agribusiness
Implementing Partner/ National Development Bank	Bancoldex	FIRA
Grant	USD1 Million	USD2 Million
	 Technical assistance in order to support the through: Development of technical standards to strue estimate and monitor energy savings; Development and implementation of a method of the EE projects and of the ESTP that strue energy savings; Development of a standard performance corresponsibilities of the different stakeholders; Capacity building efforts towards ESTP, LF efforts among the different stakeholders; Identification of potential pilot projects to be incentives; Capacity building efforts in the NDBs to impoverall execution of the projects. 	development of a pipeline of bankable projects acture technically robust, bankable EE projects and hodology to validate not only the technical quality cture them, but also their results in terms of ontract that establishes the rights and and assigns project risks among them;; FIs and end users as well as active promotion e supported with financial and non-financial prove their coordination capabilities and the

Table 3: Overview Pilot Interventions with the ESI business model in Colombia and Mexico

 ¹⁹ See also recently approved IDB Project for a credit line for BANDESAL: Global Credit Loan for Financing Productive Development In El Salvador - <u>www.iadb.org/projectDocument.cfm?id=38940894</u>
 ²⁰ Once adjusted to the realities of El Salvador.





GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 18 OF 72

Loan	USD20 Million of long term credits to SMEs through second-tier banks. In the case of Bancoldex, the CTF granted a USD10 Million loan which was matched by another USD10 Million from an IDB loan under execution and USD1 Million grant. In the case of FIRA, the USD20 Million in reimbursable funding came from an IDB loan, while the CTF provided USD2 Million in grants to support the design and implementation of the EE financing strategy.			
Insurance Scheme	A surety policy was developed by a local insurance company with support from Bancoldex and the IDB to partially cover any shortfall in contracted energy savings. The surety policy was reinsured by (SwissRe). ESTPs contract the policies with the insurance company and their beneficiaries are the end users (hotels and hospitals) that assume loans from LFIs to finance their EE projects.	A surety policy was developed by a local surety firm (Afianzadora Atlas) with support from FIRA and the IDB to partially cover any shortfall in contracted energy savings. The surety policy was reinsured by (SwissRe). Allianz is also considering developing a pure insurance instrument that could be reinsured by Hannover Re. As in the case of Colombia, ESTPs contract the policies with the surety company and their beneficiaries are the end users (agribusiness firms) that assume loans from LFIs to finance their EE projects.		
Credit Guarantee	-	FIRA offers a partial credit guarantee to banks if agribusinesses interested in financing EE projects require it in order to gain access to investment credit.		





Please fill out applicable sub-sections and provide additional information if necessary, as these requirements may vary depending on the nature of the project / programme.

C.1. Strategic Context

El Salvador has a small, open, and dollarized economy with a productive structure geared toward services and consumption, and a heavy trade dependence on the United States economy. Following a 3.1% contraction in gross domestic product (GDP) in 2009, the economy has recovered gradually to expand at an average of 1.8% per year since then.

Although its annual growth rate is still relatively low compared to both its own historical averages and those of other countries of similar development level in Central America and the Caribbean, the economy is expected to grow at annual rates of between 2% and 3% over the medium term.

Salvadoran firms generally have a limited ability to innovate owing to the obsolescence of their equipment and the prevalence of outdated business models. Their inability to gain access to more modern technologies and migrate towards more productive and efficient business models is due largely to low levels of investment, resulting from limited access to medium- and long-term credit. Often, firms have to rely on short-term supplier and/or bank credit to undertake their investments, which limits their possibilities for expansion. Irrespective of the various factors that may undermine their productivity and competitiveness, access to investment credit should ease their transition to technologically more efficient and better capitalized firms that are also more productive, better integrated into global value chains, and less inefficient in their use of inputs, including energy.

As expected, EE investments by SME firms confront the same, and additional, investment credit restrictions that other more traditional types of investments. In this context, the blending of GCF resources with BANDESAL's own resources will contribute to improving access to credit at adequate terms and conditions by SMEs to undertake investment projects in eligible EE technologies.

Regarding its alignment with existing national and sectoral policies and strategies, the proposed project is aligned with the National Energy Plan for the period 2010-2024. Among other things, the plan seeks to promote the rational use of energy resources in the public and private sectors by improving the existing normative and regulatory framework, providing incentives for private investments in EE, and launching aggressive information campaigns on the need of a more rational use of limited energy resources.

It is worth pointing out that the National Council of Energy (CNE) has already been working to improve the normative and regulatory framework for EE. Indeed, in March 2014, the Ministry of Economy and the CNE introduced a draft bill in parliament that seeks to promote the efficient use of energy in the public and private sectors through, among other things, the adoption of new, more efficient technologies. The draft bill on EE was developed with support from the Inter-American Development Bank (IDB) and the German Agency for International Cooperation (GIZ).

More recently, CNE, in collaboration with USAID and OSARTEC (the Salvadorian Organization for Technical Regulation), started to work on the EE standards of several technologies (refrigeration, air conditioning, and electrical motors) which were found to be responsible for the major consumption of energy in El Salvador. Improving, regulating, and enforcing EE standards for those technologies could bring substantial EE gains, provided that there is investment credit at adequate terms and conditions available for individuals and firms to adopt them. Thus, the eventual establishment of EE standards for priority technologies is going to be an important impulse for the market as investors will become increasingly aware of what should be expected in terms of EE by the different technologies. The existence of EE standards, together with the standardized performance contract, technical validation of projects and EE providers, monitoring, reporting and verification of results, and the insurance/surety product promoted under this program, should go a long way to ease the concerns of investors and LFIs concerns regarding the performance risks associated with this type of investment projects.

Finally, the design and implementation of the proposed Program will benefit from the experiences and lessons learned of other entities, such as the "Comision Nacional de la Micro y Pequeña Empresa (CONAMYPE)", the "Consejo Nacional de Energia", the "Fondo de Desarrollo Productivo (FONDEPRO)" and some entrepreneurial organizations and NGOs, which have been supporting the promotion of EE investments in El Salvador. It will also take into account the results of programs, projects and studies on EE and its deployment in El Salvador that have been undertaken or are being carried out by bilateral donors such as USAID, GIZ and JICA.





C.2. Project / Programme Objective against Baseline

Despite high relative energy costs, and SME's interest in renewing old technology with newer, more energy-efficient technologies, EE investments in El Salvador are in the baseline scenario hindered by constraints and perceived risks by SMEs and financial institutions. From the customer/firm perspective, the aforementioned market study showed that the perceived risks associated with EE technologies are related to their higher up-front costs, lack of information on their actual performance, their unavailability in the local market, and uncertainty over the reliability of their installation by ESTPs (see also page 36-39 of market assessment in Annex 2).

El Salvador would benefit significantly from increased EE — but the market is currently underserved. The market study on EE barriers undertaken during the preparation of this project identified that one of the most important barriers for firms' investments in EE equipment was the lack of trust by potential beneficiaries. There is the belief that EE investments are not likely to result in enough energy savings to repay the initial investment in a reasonable period of time. In addition, firms surveyed were concerned about the equipment performance and quality of service of ESTPs (see in particular responses in Annex 2, Figure 19 page 38).

As in other countries, Salvadorian LFIs tend to apply a traditional "asset-based" lending approach when financing EE projects, limiting the loan amount to a maximum of 80% of the value of the assets financed. Those institutions give little or no collateral value to EE equipment and, in spite of the positive cash flow generated by EE investment projects to investing firms, most LFIs typically do not recognize and/or are not willing to rely upon those cash flows as a basis for those firms to repay their loans or increase their borrowing capacity. Furthermore, even if they would accept to consider such value, the inability to validate the risks involved in generating those positive cash flows restrains LFIs from considering EE projects as financially viable business opportunities. Consequently, LFIs tend to assign little or no value to the cash flow generated by EE investment projects, and thus require firms to encumber their internal credit capacity to finance such projects.

The lack of understanding by clients and LFIs of the potential returns of EE projects, the high perceived risk of new, more efficient technologies, and the need to secure external guarantees of a certain level of energy savings (mistrust in the performance of EE projects and ESTPs) are typical barriers to investments in EE projects in El Salvador as well as in many other countries in the region. In more advanced countries (e.g. USA), these types of investments are directly undertaken by specialized Energy Service Companies (ESCOs) under a performance contract.²¹ However, in El Salvador there are neither ESCO firms, nor standardized performance contracts for EE investments.

The measures proposed and described in Section B.1., and depicted in Table 1 of that section, aim to address these barriers by providing a concessional line of financing to kick start the promotion of this type of investment and by creating risk-sharing instruments and non-financial mechanisms that could help to build trust among investors and their financiers, paving the way for the sustainable development of the EE market once the project is over. It is hoped that once EE investors and their financiers are aware of the low risks and high returns of these projects, they would continue to invest in and finance them, respectively, with little or no recourse to additional concessional public support. Table 4 below summarizes how the proposed project addresses the barriers and risks that hinder EE investments by SMEs in El Salvador, relating those constraints to the proposed instruments and mechanisms of the Project and their specific outputs.

²¹ Fang, W. S., Miller, S. M., & Yeh, C.-C. (2012). <u>The effect of ESCOs on energy use</u>.; Panev, S. et al. (2014). <u>The European ESCO market report 2013 for non-European countries</u>. Sorrell, S. (2007). <u>The economics of energy service contracts</u>.



DETAILED PROJECT / PROGRAMME DESCRIPTION

GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 21 OF 72



Table 4: Overview how the Project addresses Risks					
Mechanism		Funding Type	Barrier	Description	Outputs ²²
Financing Scheme Credit line at adequate terms (long maturity and interest rates)		GCF concessional loan to be blended with an equivalent amount of BANDESAL's own resources.	Addresses an EE investment barrier: Availability of credit at adequate maturities to finance EE projects with high upfront costs	Availability of a credit line with adequate maturities a interest rates so that LFIs can provide sub-loans to SMEs to undertake EE investment projects. The project team will ensure that the conditions offered by GCF resources will benefit final beneficiaries.	Outputs 6,7,8,9
Development of	Standardized performance contract	Grant	Addresses EE investment barriers: Lack of trust by investors and financiers in the returns of EE projects and in the ability of ESTP to deliver promised energy savings.	Contract with retention provision and the possibility of an insurance/surety product aligns incentives of ESTP with interests of investors and financiers.	Output 1
ESI financing strategy ²³	Performance risk mitigation instrument (energy savings insurance / surety product)	Grant	Addresses EE investment barriers: No experience by SMEs and LFIs in the risks and returns associated with EE projects.	Insurance / security product partially mitigates non-performance risks perceived by investors and their financiers.	
	Establish validation and verification methodologies	Grant	Addresses EE investment barriers: Technical risk of the project and technical capacity of the ESTPs.	Third party experts on EE validate ESTPs and their project proposal, ensuring that they are strong from a technical perspective.	
Capacity development of BANDESAL, ESTPs, technical validator and its client LFIs to promote and implement the ESI strategy		Grant	Addresses financial market institutional development barrier: Institutional capacity to effectively promote the Project and support the development of the market for EE financing.	A business plan to strengthen the institutional capacity of BANDESAL and other relevant market players is developed, including the establishment of a dedicated group with its budget, work plan and internal guidelines to support and implement the ESI financing strategy.	Output 3
BANDESAL's monitoring and evaluation system to support the implementation of the proposed project and the eventual development of the EE market.		Grant	Supports the monitoring and evaluation of the proposed project and internal barrier to follow up and evaluate the results of the financing strategy:	The monitoring and evaluation system of BANDESAL is strengthened to track: i) the implementation progress of each sub-project and of the program; ii) the project's leverage of EE investments; iii) the results of each	Output 2

²² Outputs contribute to the expected project outcome: Energy intensity/improved efficiency of buildings, cities, industries and appliances as a result of Fund support. See Section H1.2 for a detailed description of outputs.
²³ The feasibility and viability of the guarantee fund provision for firm access to credit will be analyzed as part of the establishment of the financing strategy. The guarantee fund addresses general firm barrier to access credit and investors (firm)' creditworthiness. Its expected effect is that more certain returns lower loan default risks for LFIs, indirectly increasing investors' creditworthiness for LFIs.



DETAILED PROJECT / PROGRAMME DESCRIPTION



GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 22 OF 72

		Monitoring capacity	sub-project and the Project in terms	
		Addresses limited	of energy savings and/or new	
		information on the risks	power generation; and iv) the	
		and results associated	results of each sub-project and the	
		with EE investment	Project in terms of GHG emission	
		projects.	reductions	
Seed finance and coverage of initial	Grant	Addresses EE	The risk of limited market uptake	0 1 1 5
validation costs for demonstration		investment barrier:	due to upfront transaction costs to	Output 5
projects		Initial transaction costs	mobilize investments is addressed	
		to incentivize investors.	with the introduction of temporary	
			financial support measures to	
			create demonstration effect.	
Marketing and capacity building	Grant	Addresses EE	Despite reduced investment risks	
events and activities		investment barriers:	and higher availability of financing,	Output 4
		Inertia on the demand	inertia may still limit the uptake of	
		side and lack of	EE investment. However, demand	
		knowledge and	is fostered through targeted	
		awareness on	outreach to key business	
		investment	stakeholders	
		opportunities in FF		
Knowledge sharing of lessons	Grant	Limited knowledge of	Knowledge sharing through	
learned for national scale-up and	Crunt	EE opportunities and of	publications and events increases	Output 10
regional replication of ESI strategy		results of the proposed	the dissemination of lessons learnt	
regional replication of Eer citatogy		project at the national	and of the benefits resulting from	
		and regional level	the proposed project, paying the	
			way for the replication and scaling	
			up of investment in other sectors of	
			the country and at the regional	
			the country and at the regional	
			level.	

Regarding the baseline and expected outcome of the project, these are illustrated in Sections H.1.1. and H.1.2.

C.3. Project / Programme Description

To address existing barriers to EE investments by SMEs in El Salvador and build confidence among key market actors, the project will develop an innovative business model consisting of a "package" of financial instruments and non-financial mechanisms. A feasibility study and a market analysis have been completed and indicate a high potential for EE investment in El Salvador for the replacement initially of four technologies: air-conditioning, motors, refrigeration, and boilers. These technologies have been identified as having a large energy savings potential, being widely used by the target firms, and being simple to exchange without long downtimes. The result of the study has been presented to public and private actors²⁴ and their feedback has been taken into account in the development of this proposal. The following components make up the main activities that will be financed under the proposed program.

Component 1: Development of a ready-to-use, tailored financial strategy consisting of a combination of financial instruments (i.e. a dedicated long term credit line, insurance, etc.) and non-financial instruments (i.e. technical support for project development, capacity building of firms and potential clients, capacity building and promotion with LFIs, development of standard contractual mechanisms for risk sharing, mechanisms and methodologies for technical validation of technology and energy services providers and projects, monitoring and verification by third parties, etc.).

BANDESAL will receive capacity development and support to develop a ready-to-use, tailored financial strategy consisting of a combination of financial and non-financial instruments through the activities (also reflected in H1.2):

²⁴ An IDB mission visited El Salvador in March 2015 and July 2015 to present together with BANDESAL the results of the study with market actors and to discuss potential next steps, including potential GCF funding, with public authorities.





- Support in the design of fully fledged ESI strategy, including:
 - Development of standard contracts for risk sharing between providers of EE technology and energy services and SMEs;
 - Development of methodologies for assessing the technical quality of EE project proposals, for the initial four eligible technologies (air-conditioning, motors, refrigeration, and boilers), and to monitor and evaluate their energy savings performance;
 - Development of processes and methodologies to validate the technical experience of EE technology and energy services providers;
 - Development of insurance terms, coverage and policy;
 - Proposal for other specific financial instruments (i.e. long term credit lines; credit guarantees; contingent lines of credit, etc.);
 - Proposal for capacity building efforts and the promotion and marketing of the strategies as well as conducting awareness raising sessions targeted at potential clients²⁵;
 - Proposal for the deployment of the Project (including budget, assessment of the capacity of beneficiary banks to adopt the strategy into their current operational structure; as well as other legal, financial and institutional requirements); and development of pilot demonstration projects with similar (representative) firms. These projects are designed to demonstrate to the market that EE investments are viable and profitable. To achieve this goal, the strategy will include the engagement of "industry champions" (leader firms in a specific sector) to develop EE projects. The resulting projects will be used as case studies and marketing material.
 - o Matchmaking events between potential clients (firms) and ESTPs as well as between ESTPs- and LFIs.
 - Development of a dedicated website with the ESI Project description, formats, contract, and contact information of key actors.
 - Training program for ESTPs to incorporate EE sales as part of their business. The training of ESTPs will have two components, one technical component prepared by validators and a sales component prepared by a dedicated marketing firm.
- Support the development of a registry of expected impacts of the financing strategy, including:
 - Develop an information/electronic/ banking system and registry to ensure continuous monitoring, compilation and indexing of data relating to investments, technologies, projects' energy savings performance and their respective achieved emission reductions;²⁶
 - Training and support to ensure continuous data gathering and maintenance;
 - o Based on the data collected, technical cooperation for an independent impact assessment;

Component 2: Support implementation of a financing strategy: The Project will also support BANDESAL in the implementation of the financing strategy, through the following activities:

 Support in awareness raising and capacity building of beneficiaries (SMEs, ESTPs, LFIs) of the various tools developed under the Project (methodologies to assess energy savings, standard contract, insurance policy, third party technical quality verification), including a marketing strategy to promote enable women-owned and –led SMEs benefit from loans offered by the Project (see annex 13);

²⁵ The marketing and awareness raising strategy is expected to develop the capacities of technology providers to develop a new line of business: the sale of guaranteed energy savings instead of mere energy efficient technologies. The marketing strategy should support the development, diffusion and dissemination of information of new risk mitigation products, such as standard contracts, monitoring reporting and validation methodologies and ESI products (see also component 2 for the implementation of the strategy)

²⁶ The monitoring and evaluating system of BANDESAL, should be based on an electronic registry system capable of collecting / indexing information stemming from supported EE projects intermediated by first tier LFIs. Such a registry should also have clear formats, templates and methodologies for collecting, maintaining and analysing data. The system should rely also on publicly available data systems and other relevant information needed to evaluate impacts, in particular the national emissions factor, the national energy generation plan and matrix, as well as promoted technology standards. The IDB will be tracking the development and establishment of the monitoring and evaluation system and compliance with best practices in this area and the program's requirements in order to collect and maintain data relevant to the financing strategy being promoted.





- Provide inputs to the national regulatory framework for EE based from the experience and lessons learnt acquired from the structuring and implementation of the Project²⁷;
- Support in the selection and launching of pilot projects to be supported by BANDESAL EE Financing Strategy, as well as success fees (in the form of reduced interest rates) for financed SME projects that would prove to save energy; and
- Support in the continuous monitoring and verification of Project results, including lessons learned and potential standardization of processes and methodologies that could be promoted to spread the ESI model to additional sectors in the same country through knowledge sharing.

Component 3: Loan disbursement for a financing line to finance EE projects

 This proposed project is expected to be funded with a GCF loan of USD20Million for the establishment of a dedicated revolving fund, with an estimated lifetime of about 15 years, that would support a credit line geared to support the financing of eligible EE investment projects. The dedicated credit line will also be funded with co-financing of BANDESAL resources (for USD20 Million).s. In addition, USD1.7 Million in non-reimbursable resources granted by the GCF, will be used not only to support the structuring of the the credit line per se, but also to support the structuring and technical validation of technically robust, bankable projects.

Potential partners have been identified²⁸ for ESTPs, insurance and validation companies. For ESTPs, 54 companies have been identified.²⁹ In the framework of the market assessment three LFIs have been interviewed³⁰, and one insurance and validation company each has been pre-identified as a potential partner.³¹

As part of the market assessment, an initial pipeline of potential SME firms (35) interested in investing in EE eligible technologies under the Project was identified.

The specific arrangements relating to the operation of the dedicated revolving fund, the use of recuperations, and the conditions of the credit line and of the eligibility criteria of sub-loans will be established in the contractual agreement between the IDB and Bandesal and in the Project's Operational Regulations (OR), to be agreed between the IDB and Bandesal. The OR will be developed by the IDB jointly with BANDESAL as part of the IDB project approval process.

The financing provided to LFIs under the Project will have the following characteristics:

- It will be provided in the form of rediscounting;
- It will be in US dollars (USD);
- It will be granted at variable rates, with a spread that will take into account GCF concessionality as well as LFIs risks³²;
- BANDESAL will assume LFI's risks; and
- LFIs will assume sub-project risks and will grant sub-loans at a spread that will take into account GCF concessionality and investor and project risks.

C.4. Background Information on Project / Programme Sponsor (Executing Entity)

Origin: The Development Bank of El Salvador (BANDESAL) resulted from the transformation of the former Banco Multisectorial de Inversiones (BMI), which was founded in 1994. BANDESAL was created as an autonomous public institution, of indefinite duration, with legal personality, and its own patrimony, through decree 847 of 2011 of the Legislative Assembly of El Salvador. BANDESAL is the cornerstone of the so-called "Financial System for Socio-Economic Development", as other components include the Economic Development Fund and the Salvadorian Guarantee

²⁷ This activity will be implemented jointly with the National Council of Energy to enhance the current national regulatory framework for EE.

²⁸ The selection of partners will follow IDB Bank procedures and policies.

²⁹ In detail, twenty companies for air conditioning systems; sixteen companies for motors; fourteen companies for industrial refrigeration, and four companies providing boilers.

³⁰ In addition to BANDESAL's first tier operational department.

³¹ Idem.

³² Explained in Section E.6.3.





Fund, both managed by BANDESAL on behalf of the government. Other financial institutions to promote the development of El Salvador include the Banco de Fomento Agropecuario, Banco Hipotecario de El Salvador, S.A., the Social Fund for Housing and the National Popular Housing Fund.

Mandate: As a development bank, BANDESAL is empowered by article 3 of the Financial System Law for the Promotion of Development to carry out '[...] financial operations at market conditions, acting through eligible first-tier financial institutions or directly with eligible credit clients[...] ". This means that the entity can operate as a second-tier or as a first-tier financial institution. The same article states that "[...] All eligible institutions or credit clients must comply with the rules and procedures that it would establish with its policies on qualification, supervision and inspection, as well as risk management to maintain the financial health of the Bank [...] ". So, the law delegates the management of risks to BANDESAL's administration. Under the proposed Project, BANDESAL will operate as a second-tier financial institution.

Objective: BANDESAL's main objective is "to promote, with financial and technical support, the development of viable and profitable investment projects in all the productive sectors of the country, in order to contribute to: (a) the growth and development of all the productive sectors; (b) the enhancement of the productivity and competitiveness of entrepreneurs; (c) the development of micro, small and medium-sized enterprises (MSMEs); (d) increasing the country's exports; and (e) employment generation. " BANDESAL's mission is to promote the competitive development of the economy and of Salvadorian society, offering directly or through strategic partners, financial instruments and technical support to the productive sectors and other economic actors.

Recent financial situation: Equity and Assets. BANDESAL was founded with an initial capital of USD198.2 Million, equivalent to the equity of the BMI on January 18, 2012, the date on which BANDESAL began formal operations. In December 2014, the entity's total equity amounted to USD218.8 Million, showing an increase of 10% in 4 years. BANDESAL's balance sheet shows for December 2014 total assets (TA) of USD521.8 Million. The breakdown of its assets over time shows how the entity has been changing its asset mix in favor of investments and loans and to detriment of cash balances. Indeed, while the share of investments and loans in its TA increased from 42.3% in 2009 (USD253.6 Million) to 67.2% (USD350,5 Million) at the end of December 2014, the share of cash balances in its TA went down from 53.6% (USD321.4 Million) to 28.4% (USD148 Million) in the same period. These figures show BANDESAL's commitment to expanding its loan portfolio progressively, while maintaining reasonable levels of liquidity. IDB evaluated BANDESAL's fiduciary, financial as well as environmental and social safeguard capacities during the preparation of a loan recently approved by its board whose objective is also improving SMEs' access to investment credit in all sectors of the economy, and found that they were adequate (see also Footnote 19 Section B.3.).

Finally, it is important to note that in its financial statements, BANDESAL does not report arrears or defaults in its secondtier operations, in contrast to what can be observed for the Salvadoran Financial System as a whole.³³

Total Liabilities: (TL) Total liabilities at the end of 2014 amounted to USD302.9 Million, primarily comprising bank loans (95.9% of TL), these being the most significant category over time.

Indebtedness and solvency ratios: The indebtedness ratio, calculated as the ratio between Total Liabilities and Total Assets, reached 58.1% in December 2014, suggesting the possibility of more borrowing space by the institution. Moreover, the relationship between equity and TA, a proxy of the solvency ratio, increased from 33.1% in December 2009 to 42% in December 2014, reflecting the entity's strong levels of solvency in relation to the risks that it takes.

Profitability: BANDESAL had a net interest margin of 2.52% in 2014 and an operational ratio, measured as the ratio of operating expenses and financial net income, of almost 39%. This means that BANDESAL is profitable and efficient. On the other hand, its return on assets (ROA) was 0.9% in 2014 and its return on equity (ROE) was 2.1%.

Programming and budget: The budget on the use of loan resources will be managed by BANDESAL, applying the mechanisms and procedures used for its own budget, which is prepared annually for the fiscal/financial year beginning January 1st and ending December 31st, and includes projections of portfolio investment, both first-tier and second-tier, to identify financing requirements or liquidity surpluses. The programming is reviewed each week on a rolling 12-month forward basis, and projections are monitored each month for submission to the Executive Board, compared with actuals. There is an established process for their preparation, approval, and execution. Pursuant to the Financial System Law for Development Promotion, the budget must be submitted to the Executive Board for approval, and then submitted for

³³ Since the proposed project will be intermediated as a second-tier operation, no losses to BANDESAL are expected. BANDESAL assumes LFIs risk and not individual sub-project risks. Therefore, only in the case of a severe banking crisis or the default of a financial institution would BANDESAL sustain losses. However, even then, those losses will be covered by a sovereign guarantee. The probability of this scenario occurring is deemed low.





approval by the Board of Governors. Although unusual at BANDESAL, if the budget requires amendment, the same procedure must be followed for approval.

Accounting and information systems Project accounting will be the responsibility of BANDESAL, using its own accounting system, in which accounting and cash operations are integrated and referenced to information from the approved budget, together with supplemental records as deemed necessary to present information to the IDB. To prepare its financial statements, BANDESAL applies generally accepted accounting standards and regulations issued by the SSF.³⁴ The accounting standards used shall be internationally recognized accounting standards. As condition for IDB loans: (i) the financial statements shall be audited by internationally recognized auditing firms; (ii) accounting processes and systems should follow best practices of international standards; and (iii) the enforcement of use of appropriate accounting by executing agencies as well as their fiduciary systems are assessed before the approval of the loan.

BANDESAL's Experience with EE, Renewable energy and SME financing

BANDESAL has experience with both financing of clean energy projects and financing of technology adoption projects by SMEs ³⁵ in the industrial, trade and services sector.

Through its own financial resources and guarantee fund, BANDESAL has been supporting access to investment credit by firms interested in undertaking projects that enhance their productivity and sustainability through the adoption of clean energy technologies and the certification of their production processes.³⁶

More specifically, BANDESAL already has a credit line geared to supporting the financing of EE and renewable energy projects under its Empresa Renovable Program.³⁷ Under this Project BANDESAL finances up to USD4,000 of technical assistance for firms EE projects and up to 80% of investment costs for:

- Working capital,
- Equipment acquisition, and
- Physical infrastructure.

In addition, BANDESAL has financing experience in energy efficiency, through the Economic Development Fund (FDE) in cooperation with the KfW bank. This credit line includes a wide-range of possible investments supported³⁸ with the following terms:

- Projects for a maximum period of 20 years with a maximum grace period of 5 years.
- Personnel training: for a maximum period of 2 years with a maximum grace period of 1 year.
- Pre-investment feasibility or technology transfer studies; maximum period of 2 years, maximum grace period of 1 year.
- Contracting of experts or consultants: maximum period of 2 years, maximum grace period of 1 year.

BANDESAL also provides guarantees for EE projects focused on SME firms and technology providers, as well as special guarantees for individuals or legal entities to address environmental conversion, renewable energy, and environmental certification.³⁹

BANDESAL's experience with the challenges of SME and EE financing, and its mandate to support the financial market and productive development, enables the executing entity to actively address all financial and non-financial barriers to EE

³⁴ The financial statement to the GCF will follow IDB bank procedures revised under the IDB accreditation process to the GCF.

³⁵ See BANDESAL (2012) Financial Instruments for Development

³⁶ See Economic Bulletin of the Salvadorian Central Bank (Banco Central de Reserva de El Salvador).

https://www.bandesal.gob.sv/portal/page/portal/INICIO/SERVICIOS/GUIA/GARANTIAS/BMI_RECONVERSION_IND USTRIAL

³⁸ Projects financed include a wide range of financial support for the reduction of raw and primary material (e.g. water energy etc), equipment substitution and more efficient equipment, development of EE programs, reduction of all type of emissions and waste (liquids, gases, and solid waste), relocalisation of firms for environmental reasons, improvement in labour protection, reduction of contamination of the work place, renewable energy and other investments that reduce environmental contamination. See <u>BANDESAL-KfW Program</u>

³⁹ For details, please see Section 6 of the Market Assessment in Annex 2.





investment by building upon current and previous financing experiences and thus applying the proposed innovative business model to promote EE Investments.

C.5. Market Overview (if applicable)

This section provides an overview of the main ESTPs in El Salvador for technologies eligible for the project (air-conditioning, boilers, electric motors, and refrigeration chambers). It also provides some information on the various technical validators and insurance companies operating in El Salvador. Finally, the section presents the sub-sectors identified for implementation of the ESI instrument. For additional detail, please see the market study in Annex 2.⁴⁰

Energy Services and Technology Providers

The market assessment has identified the main suppliers to the firms that have participated in the survey, with regard to provision of services and technology related to air conditioners, boilers, electrical motors, and refrigeration systems.

In total, there are 54 suppliers in the market for the aforementioned technologies. 20 companies provide air conditioning equipment. Since this technology is easily accessible, it can be sold by any retailer, and is in high demand by firms in the services sector, a large and dynamically growing sector of the Salvadoran economy. Boilers is the technology with the fewest providers, with only four identified, providing services from equipment sales to maintenance and repairs. It should be noted that these devices have high cost, so many firms go directly to the manufacturers.

See Annex 2 for a complete overview of the suppliers, the brands they supply, their market experience, and the services they provide (e.g. installation, maintenance, repair and other services)⁴¹.

The ESTPs that will participate in the Project will be trained in the formats, protocols and methodologies to be used to structure projects in eligible technologies. In addition, all of them will be validated in terms of their experience and expertise in the design and implementation of projects in technologies, and for this they will submit projects on behalf of their SME clients. It is important to note that the technical validation of both ESTPs and sub-projects in eligible technologies will be carried out by an independent technical validator on the basis of formats, protocols and methodologies⁴² developed for such purposes, taking into account the technical regulations or any other provision established by country-relevant regulatory entities. ⁴³

Technical Validators

The Project relies on an independent technical validator to validate the technical quality of projects and ESTPs. The validator is expected to be a private, public-private, or non-governmental institution with experience and credibility in the certification of EE projects. It is important that the validator is of a private or NGO nature to ensure that if it does not comply with the expected technical standards and required response times, its contract can be easily revoked.

Reliable international certification and verification organizations with the capacity, experience and credibility to support the Project have been identified in El Salvador. The validation entity will help to build trust and rule on potential conflicts between relevant market actors, particularly investors (firms), LFIs, and the insurance/surety companies.

⁴⁰ For more detailed information on each one of the air conditioning, boiler, motor, or refrigeration chamber providers, including their address, telephone, and contact mail in some cases, see in the Feasibility Study; Appendix 5 of the market report. Appendix 9 of the market assessment includes a list of associations that are directly related to the factors that should be considered in a possible BANDESAL program to finance EE projects.

⁴¹ See in Annex 2 pages 47-50 specifically Tables 15-18 and their description in the Market assessment.

⁴² In the design of the formats, protocols and validation methodologies the independent validator will take into account the latest technical regulation for eligible EE technologies in force in the country.

⁴³ CNE in collaboration with USAID, and OSARTEC (the Salvadorian Organisation for Technical Regulation) is working on the technical regulation for EE standards. Their analysis indicates that three technologies: refrigeration, air conditioning and electrical motors, make up the major consumption of energy in El Salvador. Improving, regulating, and enforcing a minimum efficiency standard for technologies can bring substantial efficiency gains if linked to the provision of finance for these investments. Thus, the potential regulation of EE standards will be an important impulse for the market and will strengthen the demand for financing for EE investments by firms and will work to improve the trust of firms towards the technological equipment. The additional mechanisms (standardized performance contract, validation methodologies, and insurance policy) as well as the credit line proposed in this project will support the supply of financing by LFIs and will support the creation of trust among different actors.





Insurance companies

The local insurance market is concentrated in 21 companies with total assets of about USD660 Million and USD326 Million in capital. The total net premiums written are USD312 Million.⁴⁴ In the context of the market assessment conducted for the elaboration of this proposal, a few insurance and surety companies, some of them with close ties to international reinsurers, were identified. Some of the companies identified have already expressed their interest in developing an insurance/surety product that would help to mitigate potential performance risks as perceived by investors and their financiers.⁴⁵

The feasibility study also identified the following subsectors for the implementation of the program, based on a multi-criteria scorecard methodology applied by BANDESAL with IDB support to prioritize sub-sectors.

Areas of Opportunity	Subsector	
EE in private service buildings	Private hospitals	
	Offices	
	Supermarkets	
EE in industry – SMEs	Plastics industry	
	Pharmaceuticals	
	Prepared food products	
EE in industry – larger industry	Dairy products	
	Plastics industry	
	Beverages	

Table 5: Potential SME Sub-Sectors to Implement EE measures

C.6. Regulation, Taxation and Insurance (if applicable)

The proposed project does not require government licenses nor permits for implementing EE projects. As the project is conducted through an NDB and supporting LFIs. BANDESAL and the LFIs are governed by the law of the financial system and have all necessary permits in place.

ESTPs as well as validator and verifier firms operate on the basis of an official business license. The proposed standardization and development of insurance instruments does not require any additional regulation. Experience in Colombia and Mexico with a similar project has shown that already available insurance products (such as construction sureties) can be extended to cover energy savings as proposed.

The project will also ensure in its design that the equipment replaced will comply with national regulations and specific disposal criteria, in particular environmental licensing and compliance with ozone emissions from the Montreal Protocol with regards to disposal of refrigeration and air conditioning equipment.

The two relevant taxation regulations are the import duty tax and the VAT tax. They impact the project as follows:

Import Custom Duties (DAI)

Imports are usually subject to payment of taxes, except for those designated by law as exempt based on the type of or quality of goods that the importer provides.

⁴⁴ See AM Best Latin America Spotlight 2012 El Salvador

⁴⁵ IDB's previous experience shows that once the project is known by these firms, some of them have voluntarily developed their insurance/surety product based on the standard contract structured with the project's support.





The proposed technologies are subject to the customs import duties (DAI), which are contained in the Central American Import Tariff. The tax rates for imported goods are differentiated by groups and can vary from 0% to 40%.

The following products are exempt from payment of customs.

- Motors with output equal to or lower than 37.5W.
- Universal motors with power greater than 37.5W
- Single-phase A/C motors.
- Machinery and electronic devices with ignition or starter motors and for motors with spark or compression ignition.
- Starters, even if they also function as generators.
- Magnetic starters for electric motors.

Chapter 84 of the same resolution establishes certain articles related to the import of boilers, air conditioners, and refrigeration systems; which are also exempt from customs payments. Among them are:

- Steam boilers
- Central heating boilers
- Economizers, super-heaters, soot removers, gas recovery systems
- Machinery for air conditioning that includes a fan motor. They may be for walls or windows.
- Devices for controlling temperature and humidity
- Machines and devices for production of cold, even if not electric.
- Refrigerator/freezer combos with separate exterior doors.
- Groups of compression refrigeration machines.

Value Added Tax (VAT)

In addition to the DAI, the Value Added Tax or VAT must also be paid. The VAT tax rate is 13% and is applied to the combined value in customs and the DAI that has been established for goods subject to import.

C.7. Institutional / Implementation Arrangements

The Project will be executed and coordinated by BANDESAL.

The institutional analysis prepared by the IDB shows that BANDESAL has the experience and the necessary administrative and operational capacity for the successful execution of the Project (see Section C.4.). However, to support BANDESAL in the coordination and execution of this EE integrated project, the proposed technical cooperation will fund activities such as:

- Hiring of a technical coordinator to support BANDESAL with the day to day management and coordination of Project activities;
- Promoting the Project to potential clients, LFI and energy service and EE equipment providers;
- Supporting the institutional mechanisms and instruments that would ensure the technical validation of projects and energy service and EE equipment providers;
- Supporting the design, development and implementation of a monitoring and evaluation system for the monitoring and assessment of Project results in terms of energy savings and GHG emission reductions;
- Developing and implementing a demand incentive scheme, with standardized elements (contract, validation methodologies, and insurance) to encourage EE investment by SMEs.

For execution purposes, BANDESAL will designate an executing unit, within its current institutional structure, and a project coordinator, to be responsible for the overall execution of the project and for interaction with the IDB as an Accredited Entity. Given the fact that the proposed project will have to go through the IDB's normal approval process and will result in a loan contract between the IDB and BANDESAL, guaranteed by the Republic of El Salvador, all IDB policies and procedures for disbursements, procurement, environmental and social safeguards, external auditing, as well as reporting, monitoring and verification of results would have to be followed. As part of the IDB loan approval process, a draft of the Operational Regulations would have to be attached to the loan package. Those regulations, to be agreed upon by BANDESAL and the IDB, will establish the eligibility criteria of project beneficiaries, lending limits and types of investments, as well as all relevant





fiduciary arrangements and economic and social safeguards. Their approval by the Board of Directors of BANDESAL would be a necessary condition prior to first disbursement of the project's reimbursable resources.

The contractual agreement of IDB with BANDESAL will follow the format of "Global Credit Line loan Contracts" that IDB has for programs of financial intermediation such as this one. According to this contractual arrangement and IDB policies, the contractual agreement between IDB and BANDESAL will include special stipulations providing for:

- (a) End users obligations (relating to all project criteria and fiduciary requirements) that BANDESAL shall ensure to be included in contracts with LFIs and end users accessing the funding,
- (b) Fiduciary obligations that BANDESAL needs to fulfill (which mainly require that the borrower follows IDB fiduciary requirements).
- (c) The agreement to co-finance the project.
- (d) Other Project related stipulations,.

In particular, according to the IDB Policies for Global Credit Loans, the execution by BANDESAL will comply with specific Operational Regulations (OR) for the project, including a provision that GCF funds will be kept in a dedicated revolving fund under which any loan recuperations or re-payments made by first tier LFIs will be re-used to finance eligible EE projects, as well as other aspects such as the eligibility criteria of the beneficiaries, the terms and conditions of the sub-loans (interest rate, grace period, amortization), sectors or projects that can be financed by the credits, and other parameters and/or restrictions that govern the use of the resources of the loan, as well as the local contribution. (IDB Policy PR-203). The OR will define corrective measures to be applied during the Project execution in case of non-compliance with the provisions regarding i) appropriate application of concessionality to LFIs and SMEs ; ii) proper use of success fees; and iii) production of audited report on the financial activities using the GCF funds in accordance with relevant financial reporting standard. The OR will also provide that failure to comply with its provisions will prevent access to financing. The OR shall be approved by the Board of Directors of BANDESAL, following the non-objection of the IDB. It should be annexed to the Global Credit Loan contract and is a prior condition for starting execution of the Project and for its first disbursement.

The Special Stipulations of the IDB contract with Bandesal as well as the program's Operating Regulations will stipulate the eligibility criteria of 1st tier financial intermediaries as well as final beneficiaries, the terms and conditions of the financing line as well as of eligible sub-loans (interest rate, loan maturity, and grace period), the sectors, final beneficiaries and type of investment projects that can be financed with program resources, and other parameters and/or restrictions that govern the use of loan resources. These conditions will be reflected in Bandesal's regime for the accreditation of IFIs as well as in the terms sheet of the financing line to be made public by Bandesal.

As condition to disburse program's funds, IDB will review Bandesal's accreditation process for LFIs, the aforementioned terms sheet, as well as annual progress reports, making sure that the funding granted to LFIs to provide sub-loans to eligible final beneficiaries for eligible investment projects fulfill all of the program's eligibility criteria and conditions.

The contracts will be sent for signature once it has been approved by IDB. The signature of the contract between IDB and BANDESAL and IDB and the government of El Salvador (Guarantee Contract) will be undertaken according to the law of El Salvador – i.e. after the parliament of El Salvador approves the Project.

Apart from the IDB's own initial assessment of BANDESAL's fiduciary capacity to execute the loan (provided in annex to the funding proposal), BANDESAL will have the obligation to provide, during the execution period, semi-annual execution reports and an annual audited fiduciary report. This audit report will be produced by an internationally recognized auditing firm following relevant financial reporting standards. The independent auditing firm will also verify compliance with the Project's eligibility criteria, as well as with the appropriate application of the methodology agreed with the IDB to distribute GCF's concessionality (i.e. the success fee, either in the form of a rebate or an ex-post reduction in interest rates) among beneficiary firms.

As usual for Global Credit Loan, IDB will be supervising the BANDESAL execution. As condition for disbursing funds IDB will be reviewing whether the portfolio of approved sub-loans fulfill the Project's criteria and conditions, as well as progress reports regarding the overall Project execution and fiduciary criteria. If BANDESAL, directly or through an independent auditor, encounters during the execution period that a sub-project does not comply with the eligibility criteria of the Project, it will need to take the sub-project out of the GCF-funded portfolio, and will have to assume the costs associated with recouping the concessionality that was unduly granted to it.

IDB and BANDESAL shall have planning meetings to estimate disbursements every year. IDB will maintain continuous tracking of execution of the program through a results based electronic system of IDB.





C.8. Timetable of Project/Programme Implementation

Please see Annex 8 for the time table





D.1. Value Added for GCF Involvement

By financing the design and implementation of BANDESAL EE Financing Strategy (ESI scheme), the GCF will significantly contribute to the market development and increase of private sector investments in EE. Without the GCF's combination of grant and concessional loan contributions, financing by LFIs and local investments in EE will continue to be limited.

As mentioned in section B.1, the market assessment undertaken in preparation of this Project (see Annex 2) has identified a number of financial and non-financial barriers to investments in EE that need to be addressed in a comprehensive manner to ensure transformational impact in the local markets.

While some financing instruments for EE were piloted in El Salvador (long term financing for debt by BANDESAL-FDE-KfW,⁴⁶ co-financing with some provision of grants by FONDEPRO and MYPYME VERDE-BCIE), these instruments were focused on an identified subset of financial and non-financial barriers and hence had limited transformational impact. The proposed GCF support for BANDESAL EE Financing Strategy is expected to build on lessons learned from these initiatives and enable the provision of a comprehensive package that would not have occurred without the GCF intervention. In particular:

- The GCF grant resources will support the design and implementation of a set of standardized instruments (performance contract, validation methodologies, and ESI policy) that should result in a more optimal risk sharing amongst market players (SMEs and energy service providers), enhanced trust of market players (LFIs and SMEs) EE technologies investment returns, and a demonstration impact that would address non-financial barriers mentioned in Table 1 of Section B.1.
- 2) The GCF loan resources will result in a dedicated second tier credit line (with BANDESAL co-financing) with adequate terms (interest rate and maturity) needed to match the payback of EE projects by SMEs, to engage LFIs in financing EE activities of SMEs, and address the financial barriers to investing in EE activities.

D.2. Exit Strategy

Sustainability of this Project is ensured by the fact that the financial and non-financial instruments promoted by the ESI Scheme are expected, over time, to allow different market players (SMEs and LFIs) to reduce their EE investment risk perception and understand and account for the EE savings cash flow returns:

- 1) The proposed standardized instruments (performance contract, validation methodology, and insurance policy), resulting from the activities in the grant component, ensure that risks are allocated to parties best able to manage these risks. These instruments, once established, are expected to change the market behavior by formalizing the processes of energy savings calculation, validation, and loan provision for EE projects, and establish a method to address lower than expected savings. The instruments create trust and clear procedures for the interaction between actors: Client (firm)-ESTP, Client-LFI, ESTP-validator, ESTP-insurance.
- 2) The high energy price in El Salvador makes EE investments economically viable without GCF support at current interest rates, while the current lack of long-term credit to firms constitutes a real barrier as cash flows savings from EE investment do not match debt maturity. The demonstration effect expected from implementing the ESI model aims at increasing the financing experience of LFIs with EE investments, allowing for the provision of long-term credit, and increasing the demand by firms to invest in EE technologies through multiplier effects. The low payback and high IRR of EE technologies suggest that the ESI model favors the transition towards a purely private market, after initial GCF support is phased out.

In summary, the transformation impact of the Project, once the GCF financing is repaid, should allow for LFIs to be engaged in financing these types of projects even without the dedicated second tier credit line from BANDESAL, as they would have acquired sufficient experience in financing EE projects and accounting the energy savings in cash flows.





Equally non-financial standardized instruments are expected to be adopted by market players (SMEs, ESTPs, Validators and Insurers) in business models that allow the Project to be replicated and scaled up further without need for further support.

The sustainability of the Project will also be ensured by the fact that: (i) it is based on a long-term commitment by the Salvadorian government in promoting EE and in strengthening a line of EE credit to SMEs that BANDESAL is already operating; (ii) the economic analysis of the Project indicates a positive return of EE due to high energy costs in El Salvador; and (iii) the Project funds can be used for more than one sub-loan over time, as the payback periods of the sub-loans are shorter than the payback period of the overall Project.

⁴⁶ See also Section C.4.





E.1. Impact Potential

Potential of the project/programme to contribute to the achievement of the Fund's objectives and result areas

E.1.1. Mitigation / adaptation impact potential

The proposed Project is expected to finance investments in EE technologies for about 494 eligible firms (8%) out of a population of about 6,232 potentially eligible firms in El Salvador.⁴⁷ Emission reductions are expected to be of around 562,037 tCO₂eq for an average of 15 years⁴⁸, or 37,469 tCO₂eq annually.⁴⁹

As mentioned before the Project is expected to have a strong transformation and replication impact. Given the importance of the SME sector in the Salvadorian economy (according to the most recent census, SMEs make up 99.6% of the country's enterprises generating 58% of formal employment and 30% of GDP⁵⁰) a Project geared to this sector should provide strong potential to demonstrate how the replacement of obsolete equipment with more efficient can lower significantly the lock-in of high-emission technological infrastructure, as well as increase market players knowledge of options to reduce high energy costs.⁵¹

E.1.2. Key impact potential indicator

Provide specific numerical values for the indicators below.

-						
GCF core indicators	Expected tonnes of carbon dioxide equivalent (t CO_{2} eq) to be reduced or avoided (Mitigation	Annual	37,469 tCOeq			
	only)	Lifetime	562,037 tCOeq			
	 Expected total number of direct and indirect beneficiaries, disaggregated by gender (reduced vulnerability or increased 	Total	Not applicable			
	 Number of beneficiaries relative to total population, disaggregated by gender (adaptation only) 	Percentage (%)	Not applicable			
Other	 National Energy Savings (Expected decrease in energy intensity of buildings, cities, industries and appliances) 	GWh	36,5			
relevant indicators	• Firms that receive access to credit from the Project's financing to invest in EE	Firms	Around 500 firms			
	 Participation of loans for investments channeled to SMEs managed by women 	Percentage (%)	Increase from 30% currently to 40%			

The methodology applied to estimate tCO2eq reductions included the following steps:

⁴⁷ This is assuming one technology per firm. The project envisions combinations of technologies per firm which will lower the number of firms accordingly. The priority sectors account for about 5.5% of small businesses, 9.6% of medium enterprises, and 6% of large companies Table 14 of Annex 2.

⁴⁸ The lifetime of the technologies has been estimated averaging and weighting the surveyed technology equipment lifetime for the technologies in El Salvador by the estimated distribution of the investment demand.
⁴⁹ See Annex 10.

⁵⁰ Directory of Economic units 2012, <u>Dirección General de Estadísticas y Censos de El Salvador (General Directorate of</u> <u>Statistics and Census of El Salvador</u>) Business Directory 2011, <u>Dirección General de Estadísticas y Censos de El</u> <u>Salvador (General Directorate of Statistics and Census of El Salvador</u>)

⁵¹ <u>National Census of El Salvador, 2005</u>. See also IDB Project: Global Credit Loan for Financing Productive Development In El Salvador - <u>www.iadb.org/projectDocument.cfm?id=38940894</u>


- First surveys were applied to a representative number of typical SMEs that could invest in EE projects (35 firms) in El Salvador. The aim of the survey was to understand some general characteristics of EE improvements in SMEs, such as EE energy consumption, existing equipment, age of equipment, use of equipment, among other issues.
- From this sample of SMEs, as well as from interviews and surveys with local technology providers, 4 predominant equipment technologies were identified: Air conditioning, Boilers, Refrigeration and Electric motors.
- Based on the information from the surveys, local statistical information and information from technology providers, estimates were undertaken of energy consumption of current equipment and the likely energy consumption (savings) of the potential new equipment if it would be replaced by a more efficient technology. Based on this, an average investment per technology and per sector was identified: e.g. the same investment would not be required for a boiler in a building as for an entire industry.
- Based on estimates of needed investment per technology by typical beneficiary firms and statistics regarding number and types of SMEs per sector, further estimates were produced regarding the number of projects that can be financed for a total financing of USD40 Million by the Project and another USD10 Million from equity and private sector co-financing (estimated from typical behavior of sub-loans from BANDESAL).
- Based on the number of potential projects⁵², an estimate of the total energy saving per technology replaced and per sector activity / characteristics was undertaken.
- Further, the CO₂eq reductions per year were estimated according to the type of energy reduced (fuel or electricity). The emission factors considered for El Salvador were: for electricity: 0.6798 KgCO2/KWh, and for the fuel: 8.838 KgCO2/gal (which comes from a combination of use of fuel-oil, LPG gas and diesel in a 20%-40%-40% ratio).
- Once the calculations of potential CO₂eq reductions per year were estimated, the number was multiplied by the lifetime of the technologies (the lifetime of the technologies has been estimated averaging and weighting the surveyed technology equipment lifetime for the technologies in El Salvador by the estimated distribution of the investment demand).

As an example of indicators applied to a similarly structured IDB-CTF EE project, a project to follow the same scheme in Mexico with the NDB FIRA, is expected to save 723,000 Mt over 10 years 1,597 GWh over the same period. The different benchmark numbers relative to the proposed Project result from two assumptions: 1) larger equipment being used in Mexico, 2) multi-measure replacements of equipment in Mexico compared to one measure per firm in El Salvador due to smaller size and credit capacity per enterprise (as there is also a larger share of medium-sized firms in Mexico).

⁵² In El Salvador there are 25,139 enterprises. From this total market, 6,232 firms are categorized as small, medium and large-scale enterprises, and are using at least one of the technologies proposed by the Project. The Project aims to allocate loans to 494 EE projects in in all sub-sectors of the market in El Salvador, reaching 7.9% of the small, medium and large-scale firms, assuming each firm invests in one project. The market study included 35 interviews and visits to potential clients from 10 selected sub-sectors. These 10 sub-sectors represent 379 firms and include: private hospitals, offices (buildings), supermarkets, hotels, plastic industries, pharmaceutical industries, processed food, dairy products, and beverages (Table 13 in Annex 2). The focus on these 10 sub-sectors aimed at gaining information effectively and efficiently on a sub-set of the target market, taking into account that additional demand for efficient technologies is expected from additional sub-sectors (e.g. textiles, ceramics, sea products, chemicals).



E.2. Paradigm Shift Potential

Degree to which the proposed activity can catalyze impact beyond a one-off project/programme investment

E.2.1. Potential for scaling up and replication (Provide a numerical multiple and supporting rationale)

As described in section D.2 the Project is expected to have a strong transformational and replication impact, as it is expected to:

- 1) Alter the risk perception of LFIs and SMEs for EE investments by insuring the savings and hence cash flows of energy savings;
- 2) Develop a track record of sustainable business in the energy services market.

The transformation impact of the Project should allow, once the GCF financing is repaid, for LFIs to be engaged in financing this type of projects even without the second tier credit line from BANDESAL, as they will have acquired sufficient experience in financing EE projects and in accounting for the energy savings in cash flow. Since the Project funding is channeled through a second tier development bank it will ensure high capillarity to the overall first tier local financing system.

Equally non-financial standardized instruments are expected to be adopted by market players (SMEs, ESTPs, Validators and Insurers) business models allowing the Project to be replicated and scaled up further without need for further support.

It is, hence, expected that over time the Project could be replicated in the short to medium term to about 20% of the 6,232 potentially eligible firms, resulting in annual reductions of CO₂eq of 94,811 tCO₂eq corresponding to 1.7% of total El Salvador emissions in the energy sector in 2005 (5.6 Million tCO₂eq). The total emission reductions calculated over a 15 year lifetime would amount to 1.4 Million tCO₂eq. Firms would generate EE project investments of around USD126 Million, and financing requirements of USD101 Million under the paradigm shift scenario. In the longer term, if the Project is replicated to all 6,232 potentially eligible firms it would result in annual reductions of CO₂eq of 472,688 tCO₂eq corresponding to 8.4% of total El Salvador emissions in the energy sector in 2005 (5.6 Million tCO₂eq). The total emission reductions calculated over a 15 year lifetime would be equal to 7.1 Million tCO₂eq. Firms would generate EE project investments of around USD630 Million, and financing requirements of USD504 Million under the paradigm shift scenario.

E.2.2. Potential for knowledge and learning

The package of standardized tools, which the Project is expected to pilot, have a strong replication potential in the market. The Project implementation is expected to be undertaken through a number of consultations and capacitation of key market players (SMEs, LFIs, ESTPs) and a strong dissemination and communications strategy around these standard tools and business model. In addition the monitoring of the Project activities during implementation should provide for information and analysis of good practices to be further replicated in the Project and disseminated to market players.

The Project will also promote the collection of information and the dissemination of lessons learned and best practices in developing BANDESAL Financing Strategy to finance EE projects to exchange experience and replicate results in other regions with similar challenges to EE. In detail, planned activities in this regard include:

- Development of studies, webinars, presentations, newsletters and guidelines showing specific experiences in structuring the BANDESAL EE Financing Strategy.
- Organization, in collaboration with national and regional banking and energy service provider networks in Latin America (such as ALIDE, FELABAN, ABDE, ESCO) and sectorial SME associations, of national and regional events to share experiences with and disseminate knowledge products to other NDBs, LFIs, energy services



and technology providers and potential SME project developers.

- Organization of training and outreach to SMEs, LFIs and ESTPs to be promoted through BANDESAL's training and promotion systems and facilities and with the support of dedicated technical experts.
- Design and maintenance of dedicated web interfaces for the Project and its activities to be disseminated under IDB dedicated web pages to promote knowledge sharing among LFIs and NDBs about green financing, i.e. <u>Klave</u> <u>Finanzas Verdes</u>" and the <u>community of practices for Financial Institutions on green finance</u>.
- All these knowledge and learning activities will include best practices in women-owned and –led SMEs accessing financial services for EE.

E.2.3. Contribution to the creation of an enabling environment

A key element of the new business model is an insurance product covering projected energy savings for specifically defined and verifiable EE measures that are agreed upon under a standard contract between firms and technology solution providers. It seeks to overcome barriers that businesses and technology solution providers encounter when seeking to finance EE measures from expected future energy savings. This assurances both the end-user/investor and the bank that energy savings will be sufficient to pay back the financing, while also building the capacity and credibility of technology solution and energy service providers. The enabling environment created through the GCF funds will allow for a market independent of BANDESAL credit lines in the long-term.

Despite the high energy prices in El Salvador, and the resulting high profitability of EE investments, these investments are not materializing. The creation of standardized instruments (performance contract, validation methods, and insurance policy) will enable the market to demonstrate the viability and profitability of EE investments and in the long-term promote EE investment demand and financing supply without public support.

The ESI model emphasizes the use of standardized approaches that minimize transaction costs. This is enabled by focusing on sectors and technologies where relatively standard EE solutions are available. Technologies covered to date include: air-conditioning, electric motors, industrial boilers, refrigeration, and refrigeration systems. The use of standardized approaches is expected to allow the familiarization of the market with these investments and the transformation from an unknown investment to business as usual.

The enabling environment that the Project will generate will have such a transformational impact that, once the GCF contribution finalizes, LFIs would be engaged in financing this type of projects even without the second tier credit line from BANDESAL.

E.2.4. Contribution to regulatory framework and policies

The ESI is aligned with the National Energy Policy of El Salvador for 2010-2024, specifically with the initiatives and programs directed at private end-beneficiaries.⁵³

The proposed BANDESAL EE Financing Strategy is a response to the aforementioned barriers, as well as the absence of regulatory framework and policies that incentivize EE. Through close collaboration with the National Council on Energy (CNE) and BANDESAL, the project ensures that all lessons from the Project contribute to and inform the discussion in El Salvador on EE measures and standards (page 90 of Annex 2 Market Assessment). The main contribution to the regulatory landscape is the standardized contractual arrangement, which promotes the EE market by addressing investor and financier uncertainties.

⁵³ The objective of the National Plan is to promote savings and the rational use of energy resources, incentivizing the most efficient technology in the public sector, commerce, industry, service sector and residential buildings, as well as in transport, through norms and regulations, incentives, and the promotion through education of energy savings, to reduce GHG emissions. The following programs and initiatives with relevance to the ESI Project are foreseen by the national plan: a) Programme for EE in the Commercial and Industrial Sector; b) Fund for EE; c) Salvadorian EE laws; and d) Information campaigns for saving energy.



E.3. Sustainable Development Potential

Wider benefits and priorities

E.3.1. Environmental, social and economic co-benefits, including gender-sensitive development impact

It is expected that the proposed Project will have strong social, economic, and environmental co-benefits, in addition to CO₂eq emissions reduction.

In general, EE projects under the proposed Project will contribute to strengthening the productive sectors by reducing their energy and maintenance costs⁵⁴, thus impacting on the competitiveness and productivity of the final beneficiaries (SMEs). Furthermore, ESI can contribute to poverty reduction through improving employment and local working conditions. Eligible SMEs in El Salvador that are supported in the proposed Project generate 58% of formal employment and 30% of GDP. Furthermore, the current share of women's employment in SMEs is 39%.^{55,56} The SMEs supported in this Project have on average between 20 (for small enterprises), and 70 (for medium-sized enterprises) employees. Projects in larger industries will be financed to create momentum through demonstration projects by industry leaders. These projects can be used as case studies and marketing material. The Project is expected to create an additional employment position per supported enterprise, with 46% of the jobs going to women. Scaling the Project through paradigm shift, over the short and medium term of 20% of the whole universe of 6,232 eligible firms would create an estimated 792 additional jobs and would improve job sustainability for existing jobs, with an increase in employment for women from the status quo ratio. In the long term, replication to the total 6,232 firms could create 3,945 additional jobs and would improve the job sustainability for existing jobs, with an increase of employment for women from the status quo ratio. In the long term, replication to the total 6,232 firms could create 3,945 additional jobs and would improve the job sustainability for existing jobs, with an increase of employment for women from the status quo ratio.⁵⁷

The Project will also have a direct impact on the national business environment by building capacity within the domestic private financial sector reaching 50% of LFIs, increasing access to finance for SMEs for green economy investments.

Finally the Project is expected to contribute to alleviating the host country's dependence on fossil fuels and diversifying its energy matrix, and strengthening national energy sector independence. The Project is expected to reduce the importation of fossil fuels by USD3.4 Million annually, mainly through the reduction in consumption of diesel, propane and fuel oil. The annual reduction in electricity consumption is estimated to be 36.5 GWh, equal to a 0.6% reduction in nationwide electricity consumption.⁵⁸ Reaching a penetration rate of 20% in the short and medium term under the paradigm shift scenario would reduce national electricity consumption by 1.45% (92 GWh) from annual consumption of 6 TWh, would reduce fossil fuel imports by at least USD 8.6 Million annually as well as total national energy cost savings of USD 26.6 Million per year.⁵⁹ In the long term, if the Project were replicated to all eligible firms, it would reduce national electricity consumption by 8.4% (0.50 TWh) from annual consumption of 6 TWh and reduce fossil fuel imports by 3.4% (0.50 TWh) from annual consumption of 6 TWh and reduce fossil fuel imports by 8.4% (0.50 TWh) from annual consumption of 6 TWh and reduce fossil fuel imports annually for annual consumption of 6 TWh and reduce fossil fuel imports by 8.4% (0.50 TWh) from annual consumption of 6 TWh and reduce fossil fuel imports annually for annual consumption of 6 TWh and reduce fossil fuel imports annually by at least USD 43.1 Million.⁶⁰

⁵⁴ EE measures reduce production costs for SMEs in addition to promoting innovation-based solutions which often result in increased productivity and competitiveness, see Michael E Porter and Claas van der Linde (1995) Towards a New Conception of the Environment-Competitiveness Relationship. Journal of Economic Perspectives, Volume 9, Number 4 ⁵⁵ The share of women employment is 60% in Micro enterprises, 39% in SMEs and 42% in large enterprises. Business Directory 2011, <u>Dirección General de Estadísticas y Censos de El Salvador (General Directorate of Statistics and Census of El Salvador)</u>

⁵⁶ See IDB Project: Global Credit Loan for Financing Productive Development In El Salvador www.iadb.org/projectDocument.cfm?id=38940894 and Directory of Economic units 2012, <u>Dirección General de</u> <u>Estadísticas y Censos de El Salvador (General Directorate of Statistics and Census of El Salvador)</u> Business Directory 2011, http://www.digestyc.gob.sv/index.php/novedades/publicaciones/category/45-directorio-deempresas.html?download=358%3Adirectorio-de-empresas-2011

⁵⁷ Additional jobs not accounted for here are due to more cash flow available in the economy, which creates and maintains jobs in other sectors.

⁵⁸ Equivalent to a 3.5 MW power plant running for the whole year at a capacity factor of 1.

⁵⁹ The fossil fuel savings in USD consider the savings on fossil fuels used to heat boilers. See also Figure 8 on page 29 of the Market Assessment in Annex 2.

⁶⁰ The fossil fuel savings in USD consider the savings on fossil fuels used to heat boilers. See also Figure 8 on page 29 of the Market Assessment in Annex 2.



GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 39 OF 72

Economic co-benefits	Under the target scenario
- Total number of jobs created	312
 Amount of government's budget deficits reduced through reduced fuel imports⁶¹ 	USD 3.42 Million
 Absolute reduction in electricity consumption (relative reduction to national consumption) 	36.5 GWh (0.6%)
- Monetised	USD 7.1 Million
 SME productivity increased (Sales increase per workers): 	increase of 11% of sales per worker in 5 years
 GHG Emission Reductions (valued at USD 8.99/ton CO₂eq) Lifetime 	USD 5.1 Million
Gender-sensitive development impact	
- Proportion of men and women in jobs created	Target 46% (women) from current 39% share

The methodology used to estimate sustainable development benefits is described below:

Employment (Number of formal jobs and female employment created):

- Share of simulated dollar savings for projects financed by the ESI credit line divided by annual living wage
 = share * simulated savings from ESI projects/annual wage
- Annual wage assumed to be the highest official minimum wage⁶² + mark-up of 35% = USD311
- Share of annual savings directly invested in new employment = 15%
- Annual Energy cost savings = USD10.5 Million (Fuel savings + electricity savings)
- Share of female and male employment based on official statistics 2011/2012⁶³

Fuel import savings (USD):

- Fuel costs multiplied by gallons saved
- Diesel, propane and fuel oil imported
- Fuels are only used for boilers (air conditioning, refrigeration and electric motors use electricity)
- Fuels are used in the proportion: fuel oil (40%), propane (40%), and diesel (20%)
- Weighted average fuel costs per Gallon = USD2.247
- Value of Gallons fuel saved annually, based on simulation = USD3.4 Million [Paradigm Shift USD8.6 Million for 20% penetration in short and medium term and USD43.1 Million for long term]

Electricity Savings (GWh):

- Simulated projects' electricity savings relative to national consumption = savings/national consumption
- Electricity is used for air conditioning, refrigeration and electric motors

⁶¹ El Salvador has substantially increased its import of generation capacity which reached 18% of total generation capacity compared with 5% in the same time in 2015 – see for instance Slide 5 for August 2015 <u>http://estadisticas.cne.gob.sv/images/boletines/Boletin Mercado/Mensual agosto 15.pdf</u> and <u>http://www.laprensagrafica.com/2015/04/04/aumenta-importacion-de-energia-en-el-pais</u> for the year 2014.

⁶³ See IDB Project: Global Credit Loan for Financing Productive Development In El Salvador -<u>www.iadb.org/projectDocument.cfm?id=38940894</u> and Directory of Economic units 2012, <u>Dirección General de</u> <u>Estadísticas y Censos de El Salvador (General Directorate of Statistics and Census of El Salvador)</u> Business Directory 2011, <u>Dirección General de Estadísticas y Censos de El Salvador (General Directorate of Statistics and Census of El Salvador)</u>





- Annual Simulated ESI electricity savings for all electricity-using technologies for the disbursed ESI credit line 36.5 GWh (448 GWh for 15 years)
- Annual National consumption = 6,000 GWh (based on Annex 2 Market Study –data for 2012)

SME increased productivity (Sales increase per workers):

- % of total sales of SME per worker before and after the Project execution (current average sales per SME is estimated to be of USD 16.113. It is estimated that there would be an increase of 11% of sales per worker in 5 years)
- Comparison of % of SME sales per worker before and after the Project with a control group of SMEs not supported

It should be noted that the Project may also result in indirect benefits, such as reduction of local pollution and health benefits through decreased use of fossil-fuel based electricity generation.

E.4. Needs of the Recipient

Vulnerability and financing needs of the beneficiary country and population

E.4.1. Vulnerability of country and beneficiary groups (Adaptation only)

Not applicable as the proposed Project is a mitigation project.

E.4.2. Financial, economic, social and institutional needs

The analysis of financial, economic, social and institutional needs is based both in the market assessment undertaken in preparation of the Project (see Annex 2) and an analysis of the demand for credit for investment purposes by SMEs that IDB undertook for in the preparation of the Ioan ES-L1089: Financing Productive Development for El Salvador⁶⁴.

1. Lack of long term financing: The study undertaken for the IDB loan operation ES-L 1089 shows that there is room for public intervention in the credit market. Indeed, available empirical evidence suggests that currently the available financing for SME credit is mostly short term (less than 2 years) and focused on consumption and working capital rather than on fix assets⁶⁵. The study demonstrates the relevance and economic benefits of public intervention through a second tier credit line to provide long term finance so SMEs can invest in productive projects and technology innovation. This section summarizes some of the projections of the potential demand for credit in El Salvador and, by extension, their productive sectors.

a) Macroeconomic analysis of credit demand. Analysis of credit. A first approach to the potential demand for credit for 2015 and 2016 comes from extrapolating from the dynamics observed in the credit/GDP ratio since its recovery in 2011. Based on data compiled by the Central American Monetary Council, credit intermediation as a percentage of GDP in El Salvador shrank 550 basis points coinciding with the international financial crisis. This disintermediation process had clearly a turning point in 2011, when the ratio started to recover, until it reached almost 39% of GDP. In particular, the rate of expansion of the credit/GDP ratio has so far been similar to that observed when El Salvador showed equivalent levels of credit intermediation in the period 2003-2004.

Based on the similarity observed by these dynamics, it is possible to make an initial approximation that the demand for credit for 2015 and 2016 would continue to expand, as it happened between 2004 and 2008. In this hypothesis, it

⁶⁵ Lending to productive investments in El Salvador accounted in 2013 and 2014 for just 19% (US\$1,498 million) of total lending by the financial system; and of these, only 7% (US\$509 million) of the credit was extended to SMEs for terms longer than two years (medium- and long-term credit) (See: Database Central Bank of El Salvador, 2014). Access to long term credit is indeed identified as one of the most important barriers for SMEs competitiveness (See: "Doing business in a more transparent world 2012 – economy profile: El Salvador," WB-IFC, 2012). Furthermore, in recent years El Salvador's credit-to-GDP ratio has been lower than for other Central American countries and the Dominican Republic (9 points below) and for countries with a similar per capita income, adjusted for purchasing power parity (PPP): Algeria, Armenia, Belize, Bhutan, Egypt, Jordan, Namibia, Paraguay, and Sri Lanka (1.9 points lower).

⁶⁴ Study on the demand for Credit for Investments in El Salvador (2014) <u>http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=38805523</u>





is expected that long term credit lines, such as those proposed by the program, could expand 2.45 points of GDP by the end of 2015 (amounting to approximately USD 595 Million).

b) Considerations of the demand for credit based on surveys conducted among financial institutions. To complement the information presented above, a series of surveys was conducted among financial institutions in El Salvador. The surveys sought to collect qualitative and quantitative information about the potential demand for credit and the main results were as follows: (i) there is evidence of an increase in the demand for credit; (ii) there is also evidence of an increase in unmet demand for credit (rationing); (iii) small businesses typically spend 19.5% of their bank on the acquisition of machinery and infrastructure, and 4% on the development of markets and the acquisition/development of technology, with the rest earmarked for working capital; (iv) in the case of medium-sized firms, the acquisition of machinery and infrastructure represents 22.5% of the resources obtained through loans from financial institutions, with around 4.5% of those resources directed to market and technology development; and (v) large firms spend 30.8% of the financing they obtain from banks on the acquisition of technology.

Providing long-term credit at concessional terms to LFIs incentivize and enables them to increase their long-term financing to firms, which currently is not possible due to the mismatch between the maturity of assets and liabilities inherent in the current funding structure of LFIs, explained in Section B.3. In addition to the long term credit line of this Project providing financing on terms and conditions that allow SMEs to access credit and invest in productive and technology innovation projects, such as the EE projects, as explained before in Section B.1, the non-financial standardized tools promoted by the Project are expected to support increased knowledge, capacity and involvement of the LFIs and SMEs in financing and investing in EE projects. The new business model should also support enhancement of the energy service market and insurance markets.

2. Economic benefits. As mentioned in sections E.1., E.3., and forward in E.6.1, the Project is expected to result in a number of co-benefits, including increased employment and gender inclusion. The studies other analysis undertaken by IDB have shown that under various scenarios the provision of long term finance for SMEs to invest in productive projects and technology innovation (such as investments in EE technology) would result in a net economic benefit to the country of USD 42.9 Million (See Section E.6.1)

3. Institutional strengthening capacity. As referred to in the previous Sections B.1 and C.2. and the market study in Annex 2, the lack of knowledge, capacity and trust by market players (LFIs and SMEs) is an important barrier to promoting EE investments. In addition, the fact that the energy service providers still have little capacity to take financial risk to undertake investments in EE by themselves limits their capacity to act as ESCOs. The Project's non-financial instruments are expected to on the one hand provide for new business models and thus support market players in engaging and learning about benefits and opportunities from EE projects, and on the other hand support the development of an energy service market, that could eventually increase the potential of energy service providers to invest as well in EE activities. The Project counts on involving all market players in the design of the various tools and to have aggressive promotion and dissemination, and to provide training to relevant actors, such as ESTPs⁶⁶, validators, and BANDESAL for the data gathering and monitoring of the Project, and for awareness raising events for LFIs.

⁶⁶ The validator will be responsible for assessing the capacity of the ESTP and of the respective EE project proposal. In the Development phase of the Project, the validator will be responsible for creating protocols, manuals and guidelines to train and increase the capacity of ESTPs. The activities to ensure a high capacity of ESTP s include:

a) Develop evaluation protocols, with formats, criteria and parameters for EE investment proposals and ESTP to be filled by an independent validator; b) Develop evaluation manuals to use for the evaluation of ESTP; c) Develop user manuals and training material for formats to be filled by ESTPs d) Consult ESTPs and potential investing firms to receive feedback on the protocols, formats and methodologies; e) Test-run the protocols and formats to define validation and verification time and viability relative to ESTP participation and necessary capacity; f) Based on the consultations and the test run finalize protocols, formats and methodologies; g) Design a capacity building program for the users (ESTPs, LFIs, SMEs) of the protocols and methodologies; and h) Participate in promotion events and socialization events of the ESI mechanism.



E.5. Country Ownership

Beneficiary country (ies) ownership of, and capacity to implement, a funded project or programme

E.5.1. Existence of a national climate strategy and coherence with existing plans and policies, including NAMAs, NAPAs and NAPs

The Project will be fully owned by the EI Salvador stakeholders given: (i) the robust participatory process envisaged, (ii) the key role played by BANDESAL in fostering LFIs and the financial market, and (iii) enhanced coordination with core governmental agencies involved in the Project design (for instance Salvador's National Energy Council (CNE), the Ministry of Economy and the Salvadorian Organization for Technical Regulation (OSARTEC), and National Center for Cleaner Production (CNPML EI Salvador)

The proposed Project is well aligned to the Energy Strategy, the Climate Change Strategy and the Environmental Plan of El Salvador.⁶⁷ Efficient use of energy is a fundamental component because of the scarce primary energy resources and the dependency on petroleum products for electricity generation and transport.⁶⁸ While El Salvador does not have an explicit EE target, the Climate Change Strategy mentions the need for a governmental agenda and policies to identify strategic opportunities with co-benefits for other sectors. The Environment Strategy makes reference to incentivizing efficient production and disincentivizing the inefficient use of energy and primary resources.⁶⁹ El Salvador's National Energy Council (CNE) coordinates the program "El Salvador Saves Energy" (PESAE), an initiative that brings together several Salvadorian institutions with the goal of furthering EE.⁷⁰

Electricity demand in El Salvador is growing and expected to double in the reference scenario until 2026 (Figure 10 in Annex 2). The country is a net electricity importer, and also imports petroleum products to generate electricity.

The executing partner BANDESAL will coordinate the collaboration between other aligned initiatives in order to optimize the project outcome, for instance (see Annex 2 for details) ⁷¹:

• GIZ program "4E" - capacity building to support diffusion of energy efficient and renewable energy

⁶⁷ http://www.marn.gob.sv/phocadownload/cuadernillo-ENCC.pdf

⁶⁸ http://estadisticas.cne.gob.sv/images/boletines/estudios/Politica_Energetica.pdf

⁶⁹ http://www.marn.gob.sv/especiales/pnma2012/Politica_Nacional_MedioAmbiente_2012.pdf

⁷⁰ In March, 2014, the Ministry of Economy and the National Council for Energy (CNE) presented a draft for the efficient use of energy from generation to consumption. The draft law seeks among other things to "a) set national targets for energy saving and efficiency as part of the National Energy Policy (PEN); b) Regulate mandatory compliance with the energy savings and efficiency plans for the public and private sectors; c) Promote the participation of potential investors in new technologies and efficiency savings and d) create consulting firms in EE" (see also UNEP-DTU (2015) Accelerating energy efficiency: initiatives and opportunities - Latin American and Caribbean). This law would support and promote energy savings in the private and public sectors. The draft aims to promote EE through the efficient use of energy (electricity, fuel, wood, etc.) and technological changes. Additionally, this law is expected to regulate and strengthen the Committees on EE in public institutions, as executing agencies of the EE plans, which will formulate and implement the goals and objectives with the support of the CNE. The Draft Law on EE was developed with support from the Inter-American Development Bank (IDB) and the German Agency for International Cooperation (GIZ). The draft was created in consultation with the 22 agencies that participate in Programme "EI Salvador Saves Energy".

⁷¹ Further initiatives include the following: USAID has been providing technical advice and analysis to local policy makers, regulatory agencies and the energy sector in El Salvador. USAID's Regional Clean Energy Initiative program is currently working on an EE initiative supporting one commercial bank in providing technical assistance in building a pipeline of EE bankable projects. The funding is to be channelled by the commercial bank and will initially be supporting seven enterprises. GIZ has developed the 4E (Energias Renovables, y Eficiencia Energetica en Centroamerica) initiative which aims to raise awareness of SME about EE opportunities. The proposed Project expects to benefit from and be complementary with the GIZ 4E activities. GIZ has supported the development of a directory of key actors that are related to EE and this directory will be a useful tool for future activities related with program promotion and actors' engagement and discussion. JICA and IDB have signed a collaboration agreement to support Central American countries with USD 1 Billion to improve EE and renewable energy. The support has been channelled towards strengthening and increasing the infrastructure of public entities, and it is not expected to support private SMEs in financing EE. See also Annex 2 and UNEP-DTU (2015) Accelerating EE: initiatives and opportunities - Latin American and Caribbean).



technologies

- KfW/BANDESAL program to finance renewable energy and EE
- USAID's Regional Clean Energy Initiative program
- The Association of Salvadorian Industries (ASI) program to raise awareness of EE

E.5.2. Capacity of accredited entities and executing entities to deliver

IDB accredited entity

The Inter-American Development IDB (IDB) is the main source of multilateral financing for Latin America and the Caribbean (LAC). Since 1961, the IDB has provided almost USD 246 Billion for projects to reduce poverty, raise standards of living, spur economic growth, protect natural resources, foster integration and trade, and reach other agreed goals. IDB's operations approvals in 2014 totaled USD 13.8 Billion and average annual approvals have increased consistently from USD 9.8 Billion in 2005–2009 to USD12.6 Billion in 2010–2014. The IDB is a global partnership of 48 member countries in which the 26 borrowing countries of LAC hold the majority of shares. The IDB holds a credit rating of AAA/aaa.

BANDESAL (executing entity)

BANDESAL's mission is to "provide financial and technical support to promote the development of viable and profitable investment projects in the country's productive sectors, to help: (i) promote the growth and development of all productive sectors; (ii) promote business development and competitiveness; (iii) foster the development of MSMEs; (iv) promote development of the country's exports; (v) create jobs."⁷²

BANDESAL will be responsible for developing and implementing innovative financial instruments and technical assistance to be deployed through the Salvadorian financial market with potential support of the guarantee fund in order to promote private investments in EE measures adapting the ESI package to the local context. IDB has a long standing relation and lending operations with BANDESAL. More recently IDB has been collaborating technically with BANDESAL on a market analysis of the business opportunities for energy efficient investment in SMEs. In addition, IDB and BANDESAL signed a loan for financing productive development for SMEs (IDB Project <u>ES-L1089</u>).

BANDESAL's experience with approaches to addressing the challenges of SME and EE financing (e.g. guarantee fund, KfW-Economic Development Fund cooperation)⁷³, and its mandate to support financial market and productive development, enables the executing entity to actively address all financial and non-financial barriers to EE investment by building upon previous financing approaches and thus applying the proposed innovative business model to promote EE Investments. Furthermore, the Project will benefit from IDB's long-standing cooperation with El Salvador and its authorities on EE.⁷⁴

At December 2014, BANDESAL had capital of USD 219 Million, whereas its assets, generated through first- and second-tier lending operations, stood at USD 522 Million. Its second-tier portfolio as of that date was USD342.8 Million, of which USD180.3 Million (53% of the total) consisted of loans to SMEs. Of this amount, USD 94.1 Million (52%) were credits for longer than two years (medium- and long-term), It should be noted that BANDESAL's second-tier portfolio for MSMEs has grown by an average of 10% per year in the last four years.

BANDESAL capacity to fiduciary execute IDB loans has been fully assessed and considered as of low risk as BANDESAL has demonstrated a strong track record in intermediating financial resources. In addition, IDB is supporting BANDESAL with technical cooperation for the development of enhanced monitoring and evaluation systems and systems to asses environmental and social safeguards (for more detail see section F.3 and IDB technical Cooperation RG-T2166)

⁷² Law on the Financial System for Development Promotion.

⁷³ See Section C.4. for a detailed description.

⁷⁴ For instance, the EE program between IDB and CNE ES-T1119



GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 44 OF 72

Ε

E.5.3. Engagement with NDAs, civil society organizations and other relevant stakeholders

Consultation between IDB, BANDESAL and market actors for the feasibility study and market assessment

The market assessment referred to in Annex 2 was conducted in close cooperation with BANDESAL during the period of January 2014 - March 2015 and has benefited from the input of potential end-beneficiaries (i.e. firms) and technology solution providers on the current and forecasted use of technologies, reasons to invest and expectations of equipment suppliers.

In preparation of the market assessment and feasibility study in Annex 2, private sector stakeholders (firms and technology providers) were surveyed to get an understanding of the barriers to EE investment and the conditions they faced to invest in EE (demand of finance). The firms to be surveyed were identified based on BANDESAL prioritization of subsectors (see Annex 2 page 16).⁷⁵ Initial outreach has been conducted to potential validators and insurance companies.

Furthermore, in the framework of the market assessment, LFIs have been surveyed on their own EE potential and to understand the barriers to EE financing (supply of finance).

Within the framework of the proposed Project, the findings from the market assessment will be taken into account in developing standardized instruments, with the support of and feedback from the key actors to ensure buy-in and adequate awareness of firms, technology solution providers, validators, LFIs and insurance companies (Components 1). Each standardized instrument, energy performance contract (Sub-component 1.1 in Section B.1.1), validation methodologies (Sub-component 1.2), and the insurance/surety policy (Sub-component 1.3) will be shared at various development stages for feedback from private sector actors. Upon finalization of the instruments and the launch of the credit line, trainings (Sub-component 1.4) and awareness raising and pipeline building (Sub-component 1.5) will be provided to private sector stakeholders on how to apply the instruments. The stakeholder consultation and training strategy aim at creating the incentives and ownership for actors to promote the ESI model with their client network.

Consultation between IDB and National Government Authorities in El Salvador

The IDB conducted two missions to EI Salvador in 2015 in the development of the Project proposal. During the first mission, March 16-17, 2015, the IDB and BANDESAL presented the results of the market assessment (Annex 2) to key high-level government authorities and received positive feedback regarding the viability and importance of the market assessment for the objectives of the Salvadorian authorities.⁷⁶

During a second mission, conducted July 20-21, 2015, the IDB presented the proposed ESI mechanism together with BANDESAL in bi-lateral meetings to EI Salvador's NDA, the Ministry of Foreign Affairs, and key ministries in San Salvador, El Salvador. The following Salvadorian authorities attended the meetings: Ministry of Foreign Affairs, Ministry of Finance, Ministry of Economics, Ministry of Environment and Natural Resources, and the National Council for Energy.⁷⁷

⁷⁵ See Annex 2 page 16ff

⁷⁶ The following government representatives attended the discussions and the presentation of the Market Assessment March 16-17, 2015: Ministry of Foreign Affairs: Jaime Alfredo Miranda Flamenco, Vice Minister; Ana Vasquez, Director of Multilateral Cooperation; Eduardo Palucho, General Director of Economic Relations a. i.; Ministry of Economic Affairs: Tharis Salomon Lopez Guzman, Minister; Merlin Alejandrina Barrera, Vice-Minister for Commerce and Industry; and Ministry of Environment and Natural Resource: Salvador Nieto, Chief of Staff and General Counsel; BANDESAL Marina Melida Mancia Aleman, President; Carola Cardona, Director of Business Development; Haydee de Mendoza, Specialist for Market Intelligence; Oscar Ventura, Specialist for Market Intelligence. Bilateral meetings were also held with the Association of Salvadoran Industries: Juan Ceavega, Energy Manager; and Jorge Arriaza, Executive Director; and the National Council of Energy: Luis Roberto Reyes, Executive Secretary; Mario Caceres, Director for Energy Efficiency; and Carlos Najera, Director for Renewable Energy.

⁷⁷ The following government representatives attended the discussions and the presentation of the Market Assessment July 20-21, 2015 Ministry of Foreign Affairs: Ana Vasquez, Director of Multilateral Cooperation; Zeidy Morales , Specialist





The National Consultation Process conducted by the NDA with Salvadorian authorities

The Ministry of Foreign Affairs in its role of El Salvador's NDA coordinated a consultation process, between August and October 2015, with the following authorities: Ministry of Finance, Ministry of Environment and Natural Resources, Technical and Planning Secretariat of the Presidency, the National Council for Energy, the Ministry of Economic Affairs and BANDESAL. The comments received were transmitted to the IDB on October 13, 2015 and have been included in this Funding Proposal.

The GCF project has been endorsed by the National Designated Authority of El Salvador, as evidenced by the Noobjection letter dated December 01 2015, and signed by Mr. Jaime Miranda Flamenco, Vice-Minister for Development Cooperation. This letter is provided as Annex 1 to this Funding Proposal.

E.6. Efficiency and Effectiveness

Economic and, if appropriate, financial soundness of the project/programme

E.6.1. Cost-effectiveness and efficiency

While the interest rate plays a role in the decision of the firm to invest, the proposed Project is innovative and goes beyond existing programs and credit lines by structuring the demand and supply of finance and addressing all barriers as summarized in section C.2. Overview table 4 in Section C.2. Illustrates the relationship between barriers, mechanisms proposed and to be developed as part of the Project with GCF loan (and BANDESAL co-financing) and grant resources.

The financial and economic analysis was undertaken based on the overall second tier dedicated credit line to be established with the loan part of the Project and are estimated considering its expected lifetime (15 years).

The financial analysis for the Project estimates the return on investment variables (FIRR, NPV, and payback) considering just Project savings of program's aggregated investments, cost, and savings of all the underlying investment projects.

The economic analysis estimates the return on investment variables (EIRR, NPV, and payback) including additional economic benefits from the avoidance of GHG emissions (social cost of carbon) using as a reference carbon certificates at commercial prices (i.e. in the EU Emissions Trading System).⁷⁸

Table 6 summarizes the key information of the financial model.79

of the Office of Climate Finance Management; Ministry of Finance: Jerson Posada, General Director of Investment and Public Credit; Ministry of Environment and Natural Resource: Salvador Nieto, Chief of Staff and General Counsel; Ministry of Economic Affairs: Tharsis Salomón Lopez Guzman, Minister; Merlin Alejandrina Barrera, Vice-Minister for Commerce and Industry; National Council of Energy: Mario Cáceres, Director for Energy Efficiency; BANDESAL: Gerardo Vides, Specialist for Market Intelligence; and Oscar Ventura, Specialist for Market Intelligence.

⁷⁸ The assumed carbon price was USD 8.99 (EUR 7.96 at an exchange rate of 1.13 USD/EUR as of September 1st 2015 <u>https://www.eex.com/en/market-data/emission-allowances/spot-market/European-emission-allowances#!/2015/09/01</u>) based on the price of EU allowances EU Emissions Trading System. This carbon price is conservative and in line with the findings of the World Bank (2015) <u>Carbon Pricing Watch</u> which indicate a range of carbon prices between USD 1 USD/tCO2eqand 130 USD/tCO2eq with the EU ETS being the largest market.

⁷⁹ For the calculation, please refer to Annex 10.



GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 46 OF 72



Table 6: Financial and Economic Indicators for the Project				
	Financial Economic			
IRR in %	34.44	36.1		
NPV in Million USD	40.9	42.9		
Payback in Years	5.23	5.09		
Estimated cost USD/tCO2eq (see E.6.5)	91.99			
Estimated GCF cost USD/tCO2eq (see E.6.5)	38.61			

It should be noted that while the EE projects promoted by this program could achieve a high IRR, as explained before in sections B.1 and B.3, because of the lack of medium and long term finance for productive investments in El Salvador (more than 60% of financing available to SMEs is for less than 2 years and only half of it is provided to productive investments), and because of the high risk perception from market players (LFIs and SMEs), investments in EE would not take place if longer term financing and risk sharing mechanisms proposed by this Project are not put into place.

Considering the estimated emission reductions of 562,037 tCO₂equ over 15 years, and USD 21.7 Million of GCF loan and grant resources, the investment per ton is USD 38.61 per tCO₂eq. If we consider both the GCF and the BANDESAL resources of a total of USD 41.7 Million, the investment per ton would be USD 75.7/tCO₂eq.

Finally, if the overall investment is considered (USD 51.7 Million, including some USD 10 Million equity investment from private sources), the investment per ton would be USD 91.99/tCO₂eq.

These numbers are comparable only to some extent to the benchmark of the project in Mexico (FIRA) illustrated in Section E6.5. The larger benchmark numbers result mainly from the higher cost of equipment in El Salvador as all equipment needs to be imported.

E.6.2. Co-financing, leveraging and mobilized long-term investments (mitigation only)

The Project is expected to increase levels of investments by SMEs in EE projects, through on-lending by BANDESAL to eligible first tier LFIs to provide sub-loans at adequate terms to eligible SMEs interested in undertaking EE investment projects. It needs to be noted that all loans provided to SMEs, are essentially resulting in private sector investments, which would not occur without the GCF resources due to the previously mentioned barriers to EE investments.

It is expected that, in the short term, the credit line from BANDESAL would leverage at least an additional 20% in investments from SMEs' own resources. In the paradigm-shift scenario, once LFIs and investors become aware of the real risks and returns associated with EE investments, each dollar in financing provided by BANDESAL could leverage 1.5 dollars in private sector investments through LFIs co-financing and SMEs own resources. It should be noted that as this Project would be intended to fund a financing line from BANDESAL for a period of at least 15 years. This means that 1 USD of GCF funds allocated to the Project should be able to be reused under the financing line once a sub-project would have repaid its credit, and hence support additional sub-projects (i.e. between 2 to 3 projects during the financing line life time). The goal in the long-term is that the LFIs finance EE investments as a business-as-usual investment and provide their credit-worthy clients with the offer of financing EE type investments and replacements of inefficient equipment, once they are fully aware of the real risks of EE and the business opportunity in the proposed energy saving risk-sharing instrument. As the table below shows, the proposed instrument mobilizes in the short-term an additional USD 50 Million in private sector investments, of which USD40 Million is financed with loans. In the





GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 47 OF 72

medium-term the proposed instrument is expected to mobilize USD125 Million in private sector investments, of which USD 60 Million in financing is expected to be provided by LFIs.

Table 7 summarizes expected mobilization through the Project in the short and medium-term (please see E.6.5 (core indicator for the expected volume of finance to be leveraged) for the assumptions and method).

Short term			Loans in Million USD	Loan + Grant in Million USD
	GCF Funds	а	20	21.7
mobilizes	BANDESAL	b	20	20
mobilizes	SME Equity Investment	С	10	10
	Total Investment	d = a+b+c	50	51.7
	Mobilisation Factor	e = d/a	2.5	2.4
Mid-term- Scenario			Loans in Million	Loan + Grant in Million
	GCF Funds	а	20	21.7
mobilizes	BANDESAL	b	20	20
mobilizes	SME Equity Investment	С	25	25
mobilizes	Additional LFI credit line	f = 1.5*(a+b)	60	60
	Total Investment	d = a+b+c+f	125	126.7
	Mobilisation Factor	e = d/a	6.25	5.8

Table 7: Mobilization Factors

E.6.3. Financial viability

The economic and financial analysis assessed the impact of the financing line as whole (during its estimated lifetime - i.e. 15 years). It was conducted on a per technology basis with and without the GCF support (see Annex 3 for more details).

The GCF loan resources have an impact on the interest rate BANDESAL provides to intermediaries (LFIs). The concessionality is reflected in the interest rate and period (up to 5 years) that Bandesal provides to the intermediary banks (local financial institutions - LFIs). The business as usual intermediary fee that Bandesal charges to the LFI when providing funding is around 6.5%. The GCF concessionality would allow reducing this fee up to 3.625% (including the 0.75% of the GCF⁸⁰) as it can be seen in the table 8 below.

The GCF would further reduce the final market interest rates offered by the LFIs to the SMEs. The estimated current market rate without the GCF for firm is 14.3%⁸¹ and the GCF funds would lower the interest rate to 11.8% (calculated based on the current market LFI SPREAD 8.16% and the interest rates offered by BANDESAL with the Project (3.625%).

It should be noted that final interest rates include LFI market SPREAD that would not be impacted by the GCF funds. The LFI SPREAD is influenced by the credit quality of the SME clients in El Salvador (and not by sub-projects). The

⁸⁰ Range between 6.125% and 6.875%, including additional assumed costs of 0.75% with the Project. See Annex 3 for details.

⁸¹ Average interest rate spread and BANDESAL interest rate for 3-5 year and 5-7 years maturities, plus a spread of 8.16% from the LFI to firms (See <u>http://www.abansa.org.sv/#</u> and <u>https://www.bandesal.gob.sv/portal/page/portal/INICIO/TEMAS/INFO_GENERAL_CREDITOS/TASAS_INTERES</u> - Details are included in Annex 3 including a sensitivity analysis of changing energy prices and interest rates.



GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 48 OF 72

value of the market SPREAD is based on the value that local banks in El Salvador charge at the moment (Source: http://www.abansa.org.sv/#).

Table 8: Financing Line Flow					
Deal Flow	SPREAD	Interest rate	Risk reduction mechanisms		
GCF	n 0	0.75%	ΝΑ		
DB 🔻	n.a.	0.75 %	NA .		
IDB			Coversign guerentes		
Bandesal	n.a.	n.a.	Sovereign guarantee		
Bandesal	2 875% ^a	3 625% (normally 6 5%)	Bank credit track record		
LFI 🗸			Dank creak frack record		
LFI	8 16% ^b	11 785% (versus market rate of 14.3%)	Collateral		
SMEs 💙	0.1078	11.705% (Versus market fale of 14.5%)	Collateral		
SME		n.a.			
Provider	n.a.	(Project payment)	Energy Savings Insurance		

As will be illustrated in section F.1., while the GCF Fund lowers the interest rate and increases the viability of each EE project, the actual change is due to the financial strategy, structured with the technical cooperation grant, which incorporates risk-sharing instruments (illustrated in Section B.1.) so that viable EE projects are actually financed. The lowering of the interest rates and availability of finance at longer term provides the LFIs with an incentive to channel the financing resources and gain expertise with EE investments and thus assess more realistically the currently high perceived risk for these projects. In turn SMEs access financing with sufficient maturities to cover the payback period of the EE technologies and have incentive to access credit because of the better interest rates.

In the long-run, the Project is expected to mobilize private sector investments that have a multiplier effect through better understanding and product offerings by LFIs of EE investment financing as well as a conversion of equipment sellers into technology and energy service providers. The lowering of the interest rate is expected to have a long-term effect on lending practices by financial institutions through the demonstration of the profitability of the business model. Based on experience with successful EE projects under the proposed financial strategy, LFIs are expected to adapt their financial risk models to realistically price EE projects and to adapt interest rates accordingly. This will allow the GCF intervention to have a long-term effect and induce market transformation.

The proposed Project aims at developing the financial market for EE investment in El Salvador in collaboration with the public development bank BANDESAL. It is thus a public sector operation that requires a Sovereign Guarantee. The GCF's financial exit strategy for this public sector operation is dependent on the loan maturity, which is proposed to be 20 years, as indicated in the approved GCF Board documents on the terms and conditions for public sector operations.

E.6.4. Application of best practices

The ESI model combines the best practices learned from EE initiatives and projects in LAC and beyond. As shown by the in-depth analysis of the Climate Finance Lab (Annex 8), the ESI methodology was structured to provide an integrated package that addresses all barriers and shares the risks among the parties best able to manage those risks. Each element proposed and illustrated in Table 1 in Section B.1. is included to address a specific barrier and thus incentivize actors to actively promote EE investments.

The lessons incorporated from other programs are in particular:

- 1) Support the structuring of both the demand- and the supply-side of investment financing;
- 2) Address the barriers and perceived risks of all of the actors involved;



GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 49 OF 72



3) Adapt to the local circumstances, with no silver bullet or textbook solution available; 4) Blend loans, technical assistance and risk mitigation instruments to support the financial intermediation, as none of these instruments on its own is able to ensure that the supply of financing for EE projects will meet its demand: 5) Tailor investment products and incorporate EE to private sector needs 6) Build on local knowledge and on the existing financial distribution network; and 7) Invest in reputation and trust building, particularly when the deployment of new technologies is sought. The ESI model is currently being piloted in Colombia and Mexico, and coordinated by IDB, as illustrated in Section B.3. The proposed Project benefits from the ongoing activities in Colombia and Mexico, as lessons can be incorporated in preparation, development and implementation of the Project in El Salvador. This will ensure that the executing entity, BANDESAL, has access and adopts best practices in conducting the proposed Project. E.6.5. Key efficiency and effectiveness indicators Estimated cost per t CO₂ eq, defined as total investment cost / expected lifetime emission reductions (mitigation only) (a) Total project financing USD51.7 Million (b) Requested GCF amount USD21.7 Million (c) Expected lifetime emission reductions overtime 562,037 tCO2eq (d) Estimated cost per tCO_2eq (d = a / c) USD 91.99/tCO2eq (e) Estimated GCF cost per tCO₂eq removed (e = b / c) USD38.61/tCO2eq The total investment costs (a) are composed of the loan resources (USD 40 Million provided in equal shares by GCF and BANDESAL), a GCF technical cooperation grant of USD 1.7 Million and investor equity of USD 10 Million. The methodology to calculate GHG emissions is illustrated in section E.1.2. (Key impact potential GCF indicator). core indicators In the IDB-CTF supported EE project for FIRA in Mexico⁸², the calculation would be (a) Total project financing **USD27** Million (b) Requested GCF amount **USD22** Million (c) Expected lifetime emission reductions overtime 729,000tCO2eq (d) Estimated cost per tCO_2eq (d = a / c) USD37.34/ tCO2eq (e) Estimated GCF cost per tCO_2 eq removed (e = b / c) USD30.82/ tCO2eq with (a) = USD 27 Million, including some USD 5 Million from private sources (b) = CTF and the IDB resources of a total of USD 22 Million including a USD 2 Million grant. Expected volume of finance to be leveraged by the proposed project/programme and as a result of the Fund's financing, disaggregated by public and private sources (mitigation only)

⁸² See Support to <u>FIRA for the Implementation of an Energy Efficiency Financing Strategy for the Food Processing</u> <u>Industry</u>



The assumptions that drive the calculations in E.6.2 are that:

- Initial private sector investment mobilized is 20% due to a debt/equity ratio of investments of 80/20;
- Public sector investment mobilized by BANDESAL is equal to the GCF loan component
- In the medium-term, LFI's will add additional private sector finance in the ratio 3/2 to available public sector funding.

The indicators shown in Table 7 in Section E.6.2 would be the same in the cases of Bancoldex and FIRA provided in Table 3 in Section B.3. The only difference is a higher mobilization factor in the case of BANDESAL if the grant component is accounted for (5.9 for BANDESAL vs 5.4 FIRA/5.77 Bancoldex)

Other relevant indicators (e.g. estimated cost per co-benefit	Please refer to Section E 3.1
generated as a result of the project/programme)	Flease feler to Section L.S.T.



* The information can be drawn from the project/programme appraisal document.

F.1. Economic and Financial Analysis

The Project financial structure includes: (i) a grant for technical cooperation from the GCF of USD 1.7 Million; (ii) a concessional loan from the GCF of USD 20 Million; and (iii) co-financing of USD 20 Million from BANDESAL for loans.

The requested GCF funding at concessional rate will allow the LFIs to provide financing for EE investments at maturity terms longer than four (4) years and decrease the payback period of EE projects.

The economic and financial analysis for the loan portion assessed the impact of the financing line as whole (during its estimated lifetime – i.e. 15 years), was conducted on a per technology basis, and includes an assessment of the impact of the GCF participation with concessional funding.⁸³ As explained in section E.6.3 above and in more detail In annex 3⁸⁴, GCF funds would further reduce the final market interest rates offered by the LFIs to the SMEs. The estimated current market rate without the GCF for firm is 14.3%⁸⁵ and the GCF funds would lower the interest rate to 11.8% (calculated based on the current market LFI SPREAD 8.16%⁸⁶ and the interest rates offered by BANDESAL with the Project (3.625%).

Most importantly, beyond reducing the interest rate for financing EE projects, the GCF intervention will have two key impacts: (i) it will allow the LFIs to borrow at longer-maturity terms higher than 4 years, which is necessary for EE investments; and (ii) the access to lower interest rate will allow lower payback periods for EE projects.

EE investments considered for the Project are financially viable, based on IRR and NPV, without the GCF intervention. The expected IRR, without the GCF intervention, varies from 30.1% (for boilers) to 36% (for electric motors). The net present value (NPV) per project varies from USD 32,195 (for electric motors) to USD 192,157 (for refrigeration equipment). Despite the high IRR and NPV, these investments currently do not occur in the Salvadorian market due to financial and non-financial barriers that the GCF intervention seeks to address. In particular, at the current market rate, the payback periods of between 5.1 (for electric motors) and 5.7 years (for boilers) inhibit the ability of firms to fund these investments.

With the GCF intervention, IRR improves for all technologies in a range of 32% (for boilers) to 38.4% (for motors), with air-conditioning and refrigeration in-between; NPV increases for each technology by between 4-5%; and the payback period is shorter for each technology, with the largest impact on motors.

The GCF grant funding will allow the structuring of the risk transfer mechanism which will remove the non-financial barriers. As explained in section B.1., not addressing these barriers would lead to limited success of the EE credit line.

⁸³ The full Project's Financial Internal Rate of Return (FIRR) and Economic Rate of Return (EIRR) are illustrated in Section E.6.

⁸⁴ Please see Annex 3 for a full list of references, assumptions, a summary of results by technology, and the financial model with a sensitivity analysis.

⁸⁵ Average interest rate spread and BANDESAL interest rate for 3-5 year and 5-7 years maturities, plus a spread of 8.16% from the LFI to firms (See <u>http://www.abansa.org.sv/#</u> and <u>https://www.bandesal.gob.sv/portal/page/portal/INICIO/TEMAS/INFO_GENERAL_CREDITOS/TASAS_INTERES</u> - Details are included in Annex 3 including a sensitivity analysis of changing energy prices and interest rates.

⁸⁶ It should be noted that final interest rates include LFI market SPREAD that would not be impacted by the GCF funds. The LFI SPREAD is influenced by the credit quality of the SME clients in El Salvador (and not by sub-projects). The value of the market SPREAD is based on the value that local banks in El Salvador charge at the moment (Source: http://www.abansa.org.sv/#).



F.2. Technical Evaluation

The feasibility study and market analysis, which were completed to assess the business opportunities to finance EE in SMEs in El Salvador, identified high EE investment potential for the replacement of four technologies: air-conditioning, motors, refrigeration, and boilers.⁸⁷ Initially, the Project will only cover investment for these four technologies.

Efficient technologies to replace the current used air-conditioning, motors, refrigeration, and boilers are proven, widely used and available in the local market through import. They require a replacement of technology, rather than a change in production processes, and their efficiency and savings potential calculation is simple compared to complex multi-measure activities.

The proposed EE interventions will have to comply with minimum specifications requirements and will be evaluated by a recognized technical validation entity in order to be included in the BANDESAL Project and access the credit line of the Project. The following specifications will be evaluated and included in the validation procedure:

- A minimum energy saving threshold for each technology. For example, a new EE industrial boiler would have to decrease the energy consumption by at least 6% compared to the replaced system.
- The EE equipment that will replace the old equipment should be new and from a recognized manufacturer, that is able to provide a warranty.
- The new EE equipment has to provide at least the same service and capacity relative to the replaced system.
- The EE calculations and baseline estimations have to be in accordance with a predefined methodology based on ISO 50001 standards.

The replaced equipment has to be disposed of and disabled to avoid its further use (see paragraph 13 in Annex 6 for details).

F.3. Environmental, Social Assessment, including Gender Considerations

IDB Policies and management programs related to Environmental and Social Assessment, as well as gender policies are fully consistent with GCF requirements. IDB has gone through an in-depth assessment by the GCF Secretariat and the Independent Accreditation Panel and a full accreditation with no conditions has been awarded.

As reference, the conclusion of the Independent Panel on IDB application, as included in the GCF Board document "Consideration of Accreditation Proposals" endorsed by the GCF 10th Board: "The applicant fully meets the requirements of the Fund's interim ESS in relation to the high E&S risk Category A/I-1; and (c) The applicant has demonstrated that it has policies, procedures and competencies by which to implement its gender policy, which is found to be consistent with the Fund's gender policy, and has also demonstrated that it has experience with gender consideration in the context of climate change activities".

All the steps required by the IDB in relation to the ESS and Gender are described in detail in the IDB accreditation application sections 6 and 7, respectively.

For the project's detailed Environmental and Social management Plan, please refer to Annex 6.88

Environmental impact assessment: the project consists in financing the substitution of old equipment for new energy efficient selected technologies (air conditioning, boilers, refrigeration and motors) which will result in energy savings and hence will have a positive impact on global climate change by reducing GHG emissions. Due to this nature of the investments to be financed and their main beneficiary firms, mostly SMEs and in the service sector as reflected in

⁸⁷ Please see Section 3 in Annex 2 Market Assessment (pages 18-27 and pages 73-74) for a detailed overview of technologies, their characteristics and assessment for suitability for the proposed project.

⁸⁸ The Environmental and Social Assessment will be finalised in the process of IDB project approval following a favourable GCF Board decision on the project.





Bandesal's existing credit portfolio, negative environmental and social impacts are not foreseen and the Project has been categorized as low risk according to IDB Environmental and Social Safeguards. The only potential adverse impact on the environment would be if replaced units (i) are not withdrawn from circulation (risk of GHG emissions leakage) and (ii) are not properly disposed (risk of contamination for equipment involving hazardous waste). To mitigate this risk, an Equipment Decommissioning and Disposal Protocol89 will be part of the Project's operational regulations. Specific requirements to be included in the Operational Regulations of the Loan (OR) and the loan agreement are described in the annexed Environmental and Social Management Plan.

The Protocol will ensure that the replaced old equipment will be properly decommissioned and disposed of. Replaced equipment will have to be handled in a technically appropriate manner to ensure that its final disposal is undertaken in accordance with all relevant national regulations and with the assistance of a national licensed or certified waste management service provider. If for any reason a Project beneficiary fails to decommission and dispose of any substituted equipment according to the Project's Decommissioning and Disposal Protocol, it will be forced to repay the loan immediately and may be subject to regulatory sanctions as established in relevant laws and regulations of the country. Compliance with the Protocol will be monitored by the external validator.

It is important to note that Bandesal has a strong institutional capacity in the management of E&S risks, with fully implemented ESMS for both first and second tier activities.

Environmental risks management: potential E&S risks in this Project will be managed according to an ESMS integrated in the OR. The ESMS will be based on (i) the application of an exclusion list (see Annex 6), (ii) the application of Bandesal existing ESMS, (iii) compulsory site-visits for projects above US\$1m, (iv) the verified compliance with the Equipment Decommissioning and Disposal Protocol.

Social impact assessment including gender: given the type of projects contemplated in this Project no negative social impact is foreseen, but – on the contrary – positive indirect social impact is expected from the productivity increase the EE investment will generate. On the gender side, even if not a focus of the Project, an indirect positive co-benefit is expected as Bandesal current credit portfolio is about 40% for women (at least 9 projects of the initial pipeline are women-owned or led SMEs). Both the marketing strategy and the capacity building plan will include a gender perspective that will enable women-owned and –led SMEs benefit from loans offered by the project, while ensuring its commitment to the use of EE. A general challenge is the lack of gender statistics in business in El Salvador and there is no baseline available for the Project. The Project will support efforts to collect data through its execution and including gender in its monitoring and evaluation processes. The Results Monitoring and Reporting framework and the Results Matrix include gender indicators as well as gender disaggregated indicators with gender targets. Those results will be disseminated, using the platforms developed by the IDB on both gender and EE.

For a more detailed assessment of the context of gender in El Salvador, please refer to Annex 13.

F.4. Financial Management and Procurement

As part of the Project and following IDB policy, IDB determines the on-lending, financial management and oversight activities and contractual responsibilities in the framework of the loan contract with BANDESAL, the executing agency.

⁸⁹ The final disposition of the old equipment depends on the technology and includes in all cases the dissembling and transportation of the material. For three technologies (motors/boiler and air conditioning systems) there is no associated cost, as the scrap value (i.e. iron) of the equipment will cover the cost of dissembling and transportation and will be conducted by recycling companies (i.e. iron brokers). For refrigeration systems the dissembling and disposition of the old technology will be conducted by the technology provider installing the new equipment. The disposition costs are up to 5% of total project costs for these latter systems (refrigeration and air conditioning). These costs include the disposal of CFC or HCFC.



Furthermore, for the execution of the grant component IDB will contract individual consultants, consulting firms and non-consulting services in accordance with the IDB's procurement policies and procedures.⁹⁰

The approval of the Operational Regulations (OR) of the Project by the Board of Directors of BANDESAL, following the non-objection of the Bank, will be a prerequisite for the first disbursement of the GCF's reimbursable resources. Such regulations: i) will have to be consistent with the policies and operational standards of BANDESAL, the IDB, and the laws and financial practices of the country; (ii) will pick up the main features of the project, including the eligibility criteria for beneficiaries, types of eligible EE investments and LFIs, conditions under which the LFIs are to provide sub-loans and ensure that financing is provided in adequate terms and conditions (medium and long term at or below market rates) to SMEs sub-projects, the environmental and social safeguards that will apply for each of the technologies financed under it, and a provision that if BANDESAL, directly or through an independent auditor, encounters during the execution period that a sub-project does not comply with the eligibility criteria of the Project, it will need to take that sub-project out of the GCF-funded portfolio, and will have to assume the costs associated with recouping the concessionality that was unduly granted to it; (iii) set up specific fiduciary conditions to be established, including that a dedicated revolving fund will be created, ensuring that GCF funds are not comingled with BANDESAL's general financial pool of resources, and that recuperations and re-payments of GCF funds from LFIs will be reused to finance eligible EE projects⁹¹; (iv) will provide that failure to comply with its provisions will prevent access to financing; and (v) will established that any change to the OR will require the non-objection of the IDB.

The project provides funding for BANDESAL's second-tier credit operations. Therefore, the project's environmental and social risks and their impacts will occur at the level of sub-loans and therefore they are non-predictable ex-ante. In accordance with Directive B.13 of the IDB's Environmental and Safeguards Compliance Policy (OP 703), the operation does not require classification. However, for the purposes of the execution of the project, BANDESAL will have a list of sectors, previously agreed upon with the IDB and incorporated into the OR, which will not be able to gain access to finance, as well as a protocol that will have to be followed to ensure the adequate decommission and disposition of old equipment substituted with the support of the Project in order to avoid GHG leakages. The risk management system for environmental and social risks will be detailed in the Report for Environmental and Social Management of the project, an integral part of its OR.

Given the characteristics of the operation, the IDB shall disburse the resources of the project in the form of reimbursements; however, BANDESAL, in agreement with the IDB, could use other modalities of disbursement. The project's financial statements and the eligibility of expenditures will be audited annually by an independent, auditing firm acceptable to the Bank to be hired and paid by BANDESAL. The auditing firm might be the same one that already audits BANDESAL's financial statement, with a view of having an integral control approach on both the executing agency and the management of the project. This firm will report on the eligibility of expenditures and the promissory notes to BANDESAL. The project's audited financial statements will be submitted to the IDB within the last four months following the close of BANDESAL's fiscal year, in accordance with procedures and terms of reference previously agreed with the IDB. Additionally, BANDESAL will assume the commitment to submit non-audited financial information on the project on a quarterly basis.

The project will be monitored through half-yearly reports prepared by BANDESAL and presented to the IDB within 60 days following the close of each semester. They will reflect progress in product and intermediate results indicators as well as compliance with the project's eligibility criteria for sub-loans.

⁹⁰ All procurement will be conducted according to IDB policy. The following procedures shall apply: (a) Individual Consultants – Human Resources procedures (AM-650), (b) Consulting Firms –the Policies for the Selection and Contracting of Consultants financed by the IDB (GN-2350-9) using e-Sourcing,(c) Non-consulting Services –Corporate Procurement Policy and procedures (GN-2303-20). Please also see Annex 11.

⁹¹ Please see additional description of the revolving fund in Sections B.1., C.3., and C.7.



BANDESAL and the IDB will carry out a mid-term evaluation of the project about 24 months after first disbursement or once 50% of the loan proceeds have been committed, whichever occurs first. This evaluation will assess the progress in achieving the expected results in the project's results matrix to identify any corrective action that may be required. BANDESAL will also provide the IDB with the necessary information to make a completion report of the project 90 days after the end of the execution period or from the date of the last disbursement. Regular monitoring meetings will also be scheduled. The Monitoring and Evaluation Plan of the project, an integral part of any IDB project, will include a strategy to carry out an impact evaluation as of the last year of the project's execution period. This evaluation will be covered with part of the GCF non-reimbursable resources which complement this proposed GCF loan.





G.1. Risk Assessment Summary

Four main types of risks, programmatic, contextual, institutional and environmental can impact the Project implementation; however these risks have a low to medium probability of occurring. Risk mitigation measures will be undertaken and the resulting residual risk in each case is considered low as detailed in Section G.2.⁹²

The project-specific risks per individual EE investments (ESI transaction) and actor (client, bank, ESTP, and insurance) are described and mitigation of these risks by the proposed ESI instruments explained in Section B.1. and Table 4 in Section C.2.

G.2. Risk Factors and Mitigation Measures

Please describe financial, technical and operational, social and environmental and other risks that might prevent the project/programme objectives from being achieved. Also describe the proposed risk mitigation measures.

Selected Risk Factor 1 Programmatic Risk			
Description	Risk category	Level of impact	Probability of risk occurring
Risks relating to the up-take/lower than expected momentum of the instrument by El Salvador's energy end-users, energy service providers, financial institutions and insurance companies.	Technical and operational	High (>20% of project value)	Low
Mitigation Measure(s)			

In the framework of the market analysis of the demand and supply for EE investment and financing⁹³, extensive stakeholder engagement and consultations were undertaken with key market actors to confirm interest in EE and the conditions for investment. Furthermore, in the framework of the proposed Project each mechanism will be discussed and socialized with the relevant actors so as to receive and integrate feedback during the structuring and implementation of the financial strategy. Based on existing experience in Mexico and Colombia, these different interactive phases serve to increase the interest of market actors.

In addition, the intervention is designed to minimize transaction costs to firms, technology solution providers and LFIs of entering and participating in the program. This is achieved by standardizing and simplifying documentation and procedures.

Initial support to kick-off the market will be provided. Seed finance for a number of pilot projects, once the financing strategy has been deployed by BANDESAL, will support demonstration of the viability of the concept.

Together these activities mitigate the residual risk to low.

Selected Risk Factor 2 Programmatic Risk			
Description	Risk category	Level of impact	Probability of risk occurring
The risk that the Project does not create a financing market for EE investments and that the interest of financial institutions remains dependent on the provision of credit lines supported by concessional financing.	Technical and operational	High (>20% of project value)	Low

 ⁹² In addition, the experience from two CTF-financed projects (see Section B.3.) in Mexico and Colombia facilitates learning for the replication in and adaptation to El Salvador and thus mitigates risks considerably.
 ⁹³ See Annex 2.

RISK ASSESSMENT AND MANAGEMENT GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 57 OF 72



G

Mitigation Measure(s)

A key goal of the Project and its activities is to demonstrate the profitability of and address the currently high risk perception of LFIs towards EE investments through the ESI model. This demonstration is expected to lead to transformative change in the financing market, as LFIs would start to finance EE investments from their own resources. To mitigate the risk that this goal is not achieved, the Project design contemplates two measures:

- 1) LFIs gain experience with EE investments using loan resources and risk-sharing mechanisms⁹⁴ which let them experience the actual risks of EE investments. These instruments include outsourcing mechanisms for the LFIs to replace the lack of internal capacity to evaluate the risks. Outsourcing this task to the validator, and covering the risk of non-payment due to technical risks through the combination of an insurance policy and performance contract, address LFI concerns. These instruments will be developed and be immediately usable for the private market. The outsourcing effect will be to lower the entry cost and barriers for LFIs entering the EE market and thus facilitates the LFIs' gaining experience and benefiting from the business opportunity during Project support. It is expected that this experience will create internal mechanisms and incentives within the LFI to continue financing EE investments beyond the GCF support based on commercial terms.
- 2) The key barrier to EE investment is not the interest rate, as most EE projects are profitable without concessional support. ⁹⁵ Due to high industrial energy costs in El Salvador and the underlying high demand for EE investments, the market is not expected to be dependent on concessional financing beyond GCF support after the Project end. Importantly, the concessional financing provides a crucial initial and temporary incentive for the LFIs to maintain their lending rates at the same level as for traditional investment projects (thus disregarding EE-specific technology risk) so as to calibrate their perceived risks for EE investments and to provide long-term maturities for credit. In the long-term, as LFIs are aware of the business opportunity and start to compete for clients, the GCF concessional support becomes increasingly irrelevant and can thus be phased-out.

The combination of risk-sharing instruments and their implementation is thus expected to lower the risk perception of LFIs, as LFIs realize the benefits and low-entry costs of the ESI business model.⁹⁶

Selected Risk Factor 3 Programmatic Risk				
Description	Risk category	Level of impact	Probability of risk occurring	
High risk perceptions by investing firms and LFIs of EE projects	Technical and operational	High (>20% of project value)	Medium	
Mitigation Measure(s)				

This risk is a core challenge to EE investments, and one which the proposed Project methodology aims to address.

Three of the Project mechanisms (shown in Graph 1 – Section B.1.) work together to reduce this risk: outsourcing of technical due diligence to an independent validator (validates ESTP capacity, project quality and verifies energy savings), building capacity for BANDESAL and LFIs, and awareness raising for potential investing firms.

⁹⁴Performance contract and ESI policy addresses the barriers for the LFI as described in Section B1 and illustrated in Table 2.

⁹⁵ See Annex 3.

⁹⁶ The risk that LFIs continue not to finance EE investments due to internal LFI bank regulations is outside the control of the Project. However, the Project aims at providing a demonstration effect that can influence internal LFI bank regulations as the profitability of the ESI business model for EE is illustrated.





The third-party technical validator will assess the technical expertise of energy services and technology providers, as well as the technical quality and expected results of their project proposals. This reduces the risk perception of LFIs and investing firms as they rely on the independent opinion and recommendation of the validator.

Capacity building efforts for BANDESAL's first-tier clients (LFIs) increases their capacity to assess the real credit risks associated with the financing of EE technologies under the Project's mechanisms, thus further reducing perceived risks of loan underperformance. Especially if LFIs already have experience with other EE credit lines and initiatives it is important for the LFI to be supported in understanding the risk mitigation value of the different Project mechanisms.

Awareness and marketing events for investing firms inform and instruct potential beneficiaries on EE technologies, the risk mitigation value of the standard contract, validation and insurance, and thus the low residual risks associated with investment in these technologies.

The combined residual risk of persistent high risk perceptions after utilizing these mechanisms is considered low.

Selected Risk Factor 4 Institutional Risk			
Description	Risk category	Level of impact	Probability of risk occurring
Delays resulting from limited experience of the implementing partner (BANDESAL) in managing a complex Project focusing on EE investments.	Other	High (>20% of project value)	Medium
Mitigation Measure(s)			

The experience from IDB's piloting of the instrument in Colombia and Mexico has shown that this risk can be mitigated through: 1) the package of technical assistance, in particular continuous support provided for the overall coordination and integration of the Project into the operations of BANDESAL, and 2) continued engagement between the IDB and the executing entity, to ensure ownership at the management as well as technical level. To implement these measures effectively, a focal point within BANDESAL with a decision-making mandate will be established. The combined residual risk after mitigation is considered low.

Selected Risk Factor 5 Contextual Risks			
Description	Risk category	Level of impact	Probability of risk occurring
Public management and governance: The interest or commitment of the Salvadorian government or BANDESAL could be reduced as a result of changing policy priorities and/or economic conditions	Other	High (>20% of project value)	Low
Mitigation Measure(s)			

This risk is mitigated through the continuous and constructive engagement with government authorities as well as by the economic realities of high industrial energy prices.

BANDESAL, with support from IDB, engages key government stakeholders to ensure that the intervention is aligned with government priorities and demand-driven. The continuous engagement with public authorities (see also Section E.5) ensures country ownership. Given the high energy costs for the private sector in El Salvador and continuous efforts to address energy costs, energy savings are expected to remain a national priority, and thus the combined risks after mitigation is considered low.

Selected Risk Factor 6 Environmental and Social Risk			
Description	Risk category	Level of impact	Probability of risk occurring



RISK ASSESSMENT AND MANAGEMENT GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 59 OF 72



No other potential risks have been identified in the context of this Project.

* Please expand this sub-section when needed to address all potential material and relevant risks.

⁹⁷ El Salvador has ratified the Montreal Protocol, and thus requires firms to treat CFCs.





H.1. Logic Framework.

Please specify the logic framework in accordance with the GCF's <u>Performance Measurement Framework</u> under the <u>Results Management Framework</u>.

H.1.1. Paradigm Shi	t Objectives and Impacts at the Fund level ⁹⁸					
Paradigm shift object	ives					
	The Project is expected to shift the current paradigm by altering the risk perceptions of the local financing sector and SMEs for EE investments, developing an enabling environment for EE investors through standardization, and providing a track record of profitable and sustainable business in the energy services market, thereby supporting the evolving EE market.					
	The Project is expected to alter risk perceptions, create trust, and provide an enabling environment in the energy savings market through the standardization of performance and insurance contracts including validation processes, and by enabling local financial intermediates to account for cash flows as part of project collateral. By disbursing the credit line applying the mechanisms described in Section B.1. the Project builds a track record of profitable business with a demonstrative effect expected to lead to a paradigm shift in the EE financing market. Such market proving of the ESI concept through the proposed Project is crucial to achieving a paradigm shift given the lessons learnt from existing EE financing initiatives.					
	Achieving such related tCO ₂ eq E.1.1 and E.6.5) GWh annually. I energy saving e potential eligible reduced by 8.49 have a substan paradigm shift s saving equipme	a paradigm shift in emissions in El Salv , and would have a Jnder this paradigm quipment with the p e firms, national en 6 compared to 201 tial net effect on th cenario, all 6,232 con nt with the proposed	the short and mediu vador by 1.7% comp substantial net effect shift scenario, firms proposed mechanism nergy related tCO2ed 3 levels (see also S ne energy balance, s ompanies would inve d mechanisms.	ared to 201 on the ene would inve ns. In the lon q emissions ections E.1 saving 460 est about US	uld reduce 3 levels (se rgy balance st about US ng term, if a s in El Salv .1 and E.6. GWh annu SD 630.76 I	national energy ee also Sections e, by saving 92.4 6D 126 Million in applied to the all vador would be 5), which would ially. Under this Willion in energy
Expected Result	Indicator	Means of Verification (MoV)	Baseline	Tar Mid-term (if applicable)	get Final	Assumptions
Fund-level impacts						
M3.0 Reduced emissions from buildings, cities, industries and appliances	3.1 Tonnes of carbon dioxide equivalent (t CO2eq) reduced as a result of Fundfunded projects/ programmes	Aggregate summation of sector-specific t CO2eq reduction indicators. Intended to be estimated	0	-	562,037 tCO ₂ eq	Industries: Informed by MDB/IFI GHG accounting harmonization work on energy efficiency. ⁹⁹

⁹⁸ Information on the Fund's expected results and indicators can be found in its Performance Measurement Frameworks available at the following link (Please note that some indicators are under refinement): http://www.gcfund.org/fileadmin/00_customer/documents/Operations/5.3_Initial_PMF.pdf

⁹⁹ Gender disaggregation is to be researched for each sector and included where possible.



GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 61 OF 72



H.1.2. Outcomes, Outp	outs, Activities and I	nputs at Proje	ect/Progra	amme level	I	
		Means of		Targ	jet	
Expected Result	Indicator	Verification (MoV) ¹⁰⁰	Baseline	Mid-term (if applicable)	Final	Assumptions
Project/programme outcomes	Outcomes that contr	ibute to Fund-	level impa	cts		
M7.0 Lower energy intensity of buildings, cities, industries and appliances	☐ 7.1 Energy intensity/improved efficiency of buildings, cities, industries and appliances as a result of Fund support.	Based on BANDESAL electronic registry system ¹⁰¹	0	8 GWh	36,5 GWh	7.1 Energy savings (GWh) (Paris performance indicator) GWh/per year ¹⁰²
Project/programme outputs	Outputs that contribute	ute to outcome	es			
Output 1 Implementable ready-to- use ESI financing strategy, including a	Standard performance contract for risk sharing between SMEs and ESTPs	A (See footnote 100 for a legend of all applied MoV systems)	0	1	1	Standard performance contract developed, discussed, stakeholder feedback incorporated, available and disseminated with ESTPs, SMEs, LFIs and local insurers.
complete set of ESI financial and non- financial instruments and operational mechanisms to deploy them.	Insurance policy covering energy savings		0	1	1	Insurance policies developed, discussed, stakeholder feedback incorporated, available and disseminated with ESTPs, SMEs, LFIs and local insurers.
	accounting for		0	1	1	templates developed

¹⁰⁰ Means of Verification (MoV)

B: BANDESAL registry for the Project and Dedicated Website

E: IDB Systems.

¹⁰¹ Section C3 – Component 1

A: Based on BANDESAL electronic registry system and Banking information system of BANDESAL (linked to information system from first tier banks)

C: Information will be collected by the IDB from actual participation lists in workshops, events, webinars and other relevant mailing lists.

D: Loan applications and approvals for demonstration projects to test run BANDESAL mechanism.

¹⁰² Assuming that 494 EE projects using one technology each would benefit from the program (based on market study Annex 2) undertaken for the preparation of the program. See Section E.3. for the calculation methodology and Annex 3 for the calculation.





GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 62 OF 72

	technology / project level energy savings					and readily available for project developers (ESTP and SMEs) to apply to the Project and validators to verify project and monitoring of energy savings quality.
	Business plan for the Project promotion and execution	A (See footnote 100)	0	1	1	Business plan with budget, human resources, timeline and milestones identified and approved internally in BANDESAL for the Project execution and promotion.
	Validators hired and operating	A, B (See footnote 100)	0	2	2	Validators and verifiers are hired so that they can readily verify quality of proposed sub- projects for credit from the Project and verify energy savings monitored,
Output 2 Fully fledged electronic registry systems put in place for the monitoring and evaluation of projects and program's results.	Number of electronic registry system	A (See footnote 100)	0	_	1	The monitoring and evaluating system of BANDESAL, should be based on an electronic registry system capable of collecting / indexing information stemming from supported EE projects intermediated by first tier LFIs (See Section C.3.). ¹⁰³
Output 3 Dedicated BANDESAL division/structures for coordinating and	Number of BANDESAL staff	A (See footnote 100)	0	-	1	A dedicated unit is created under BANDESAL to execute the

¹⁰³ Such registry should also have clear format, templates and methodologies for collecting, maintaining and analyzing data. The system should rely also on publicly available data systems and other relevant information needed to evaluate impacts, in particular the national emissions factor, the national energy generation plan and matrix, as well as promoted technology standards. The IDB will be tracking the development and establishment of the monitoring and evaluation system and compliance with best practices in this area and the Project's requirements in order to collect and maintain data relevant to the financing strategy being promoted.



Η

GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 63 OF 72

implementing the ESI strategy	dedicated to EE financing					program, including necessary budget and human resources.
	Number of LFIs informed and staff trained (at least 30% women) about the Project mechanisms and opportunities ¹⁰⁴	C (See footnote 100)	0	_	5 LFIs (10 staff)	El Salvadorian LFIs informed and trained so that they provide financing to firms for EE projects.
Output 4 Training and outreach events for LFIs, ESTPs,	Number of local technical validators informed and staff trained (at least 30% women) about Project methodology ¹⁰⁵	C (See footnote 100)	0	_	2 (6 staff)	El Salvadorian validators trained so that they can support the Project quality control scheme.
validators (for disaggregated gender- sensitive data collection and baseline creations see Footnotes Error! B ookmark not defined. - 107)	Number of technology solution providers trained (at least 30% women) and informed about Program ¹⁰⁶ mechanisms	C (See footnote 100)	0	25	30	El Salvadorian ESTPs informed and trained so that they can promote and identify projects to participate in the program.
	Number of BANDESAL staff trained (at least 30% women) and informed about the Project mechanisms and methodologies ¹⁰⁷ .	A, B (See footnote 100)	0	20	30	BANDESAL staff trained and informed to the Project so that they can promote and execute it better.
	Number of events organized for training and outreach	C (See footnote 100)	0	10	20	Events organized in efficient manner in different regions of El Salvador.

¹⁰⁴ BANDESAL should have done outreached through campaigns and workshops to at least 5 of the most relevant client LFIs. At least 30% of the trained staff should be women. This value is recommended by IDB Gender specialists in the absence of baseline data and in addition serves the purpose of data collection for the Project

¹⁰⁷ See footnote **Error! Bookmark not defined.** for gender-sensitive data collection and baseline development.

¹⁰⁵ The training and outreach to local technical verifiers will be made through existing BANDESAL promotion systems and capacity. See footnote **Error! Bookmark not defined.** for gender-sensitive data collection and baseline development.

¹⁰⁶ The training and outreach events for EE energy services and technology providers will be made through existing BANDESAL's promotion systems and capacity. See footnote **Error! Bookmark not defined.** for gender-sensitive data c ollection and baseline development.





GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 64 OF 72

Output 5 Demonstration pipeline supported by seed finance	Number of pilot demonstration projects supported (at least 30% women-led projects)	A, D (See footnote 100)	0	15	25	Demonstration projects supported.
Output 6 Firms that had access to credit from the Project's financing to invest in EE projects	Number of SMEs (at least 35% of SMEs in the mid- term and 40% of SMEs in total shall be women-led, consistent the target in Output 8)	A (See footnote 100)	0	100	494	The Project assumes (based on the market assessment - see Annex 2 – and simulation of the target market see Calculation in Annex 10) that the average sub-loan to an SME will be of about USD100,000
Output 7 Investments undertaken by firms using the ESI strategy	Millions of USD		0	20	50	Estimated based on financing available from the GCF Project and BANDESAL and leveraged investments considering assumptions described in section E.1. and E.6.2, i.e. 20% in equity from project developers (SMEs) and 80% financing from LFIs. ¹⁰⁸
Output 8 Participation of loans for investments channeled to SMEs managed by women	%	A (See footnote 100)	30%	35%	40%	((# of loans to women / (# of loans to women + # of loans to men))-1= multiplied by 100. The baseline and increase in percentage assumes the current level of 30% of financing to SMEs from BANDESAL and that this would be increased over time.

¹⁰⁸ See BANDESAL Guide to <u>Second Tier Credit Lines</u>





GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 65 OF 72

Output 9 Average maturity of channeled loans	Number of years ¹⁰⁹	A (See footnote 100)	2.88	4.3	4.5	Average of sub— loans of medium to long term maturity channeled with Project resources.
Output 10 Knowledge sharing of lessons learned for national scale-up and regional replication of ESI strategy	Number of products/publication s, knowledge sharing events, country market reports published, and webinars	E (See footnote 100)	0	3	6	Publications and events with national and regional expert interest and participation.
Activities	Description		Inputs		Descript	ion
Second tier medium and long term credit line (Loan Component)	Provision of a medium term credit line to first- Activity (v) in Section I they can on-lend those SMEs interested in fin eligible investment pro- credit line will be co-fir GCF's reimbursable re BANDESAL resources Resulting in outputs: 6	a and long- tier LFIs (see 3.1.) so that e resources to ancing EE ojects. The hanced by the esources and 5. 5, 7, 8 and 9.	Credit line financing) • T th • T s c n a ir c	e (GCF Loan he GCF r brough the ID he Project be econd tier fi redit lines a etwork of 4 ccredited htermediates redit lines.	and BANI esources DB with a s enefits from inancing s and capac 0 local fi by BA financing	DESAL co- are intermediated overeign guarantee. n an existing national system, BANDESAL city, as well as a inancing institutions NDESAL, which from its second tier
Development of ESI financing strategy (Grant Component)	Support the developm ready-to-use strategy financial and non-finar instruments to promote by SMEs (see footnote description). ¹¹⁰	ent of a that blends ncial e investment e for activity	GCF Gra ه B n d (ز س T n ic fi E E E E	nt ANDESAL's etwork, and evelopment see footnote he ready-to narket asso dentified an rms express E. ¹¹¹ Potential part STPs, (Re-	institutic client netv of the re 110 for ac -use strat essment initial pipe sing intere ners have ·) Insurar	onal capacity, LFI vork will support the ady-to-use strategy tivity description). egy builds upon a conducted which eline of projects by est in investing in a been identified for nce and validation

¹⁰⁹ The baseline corresponds to the El Salvador average years of maturity for investment projects.

¹¹⁰ Including the development of: a) standard performance contractual mechanisms to share risks among investors, technology and energy services providers, and LFIs; b) standard insurance policy to cover energy savings risks; c) technical standards and validation, monitoring and verification mechanisms with the support of relevant third parties; d) Development of credit line and guarantee programs criteria and guidelines; e) Development of guidelines for the promotion and marketing of the ready-to-use, tailored strategies; f) Support for the identification of pilot projects for the launching of the financing strategies; and e) Capacity building of LFIs and other key actors; Activities result in in output 5.

¹¹¹ In total 35 firms have expressed interest: 16 firms for EE projects in building, 13 firms for EE projects in SMEs and 6 EE projects in large companies. These make up 7% of the target group of 494 firms.





		 companies. ¹¹² For ESTPs, 54 companies have been identified. ¹¹³ In the framework of the market assessment three LFIs have been interviewed and have indicated interest in participating. ¹¹⁴ Technical input and engagement by relevant local authorities, such as the Salvadorian Energy National Council, will ensure that the Project is continuously aligned to and benefits from experience of national ongoing energy savings initiatives. ¹¹⁵ Capacity of local validators to ensure the quality and feasibility of sub-projects energy savings, and ESTP capacity to deliver.
Capacity development of BANDESAL to promote and implement the ESI strategy	Development of BANDESAL's business plan and dedicated unit, including budget, timeline, internal policies and identified human resources to support and implement the ESI financing strategy. Resulting in output 6.	 GCF Grant BANDESAL existing institutional framework. This framework already includes dedicated personnel and systems to control social and environmental risks as well as experience in promoting EE credit lines using other business models. Local expertise and further training of personnel will be sought.
Preparation of internal BANDESAL monitoring and evaluation system for the ESI strategy implementation (Grant Component)	It is expected that BANDESAL will have developed an operational monitoring and evaluation system to track: i) private investments in promoted technologies stemming from the financing strategy developed; ii) their energy savings; and iii) their respective GHG emission reductions (see footnote 116 for description of activities). ¹¹⁶ Resulting in output 7.	 GCF Grant Existing second tier banking system of BANDESAL provides for monitoring of each sub-loan and Project activities supported. International and local expertise will be procured to ensure that a specific registry for the Project complies with requirements of the Project and ensure tracking of outputs and final outcome at sub-project level (see footnote 116 for description of activities).
Marketing and capacity building events and	The marketing strategy addresses primarily the lack of prioritization for EE investments by firms. By	 GCF Grant BANDESAL's existing communications team and its network of LFIs to promote Project

¹¹² Final selection of partners, where applicable, will be in line with IDB Procurement practices and policy (see also Section F.4.).

¹¹³ In detail, twenty companies for Air conditioning systems; six-teen companies for motors; fourteen companies for Industrial refrigeration, and four companies providing Boilers.

¹¹⁴ In addition to BANDESAL's first tier operational department.

¹¹⁵ See Energy National Council

¹¹⁶ The following activities are to be conducted: a) develop an information / electronic/ banking system and registry to ensure continuous monitoring, compilation and indexing of data relating to investments, technologies, projects' energy savings performance and their respective achieved emission reductions; b) Training and support to ensure continuous data gathering and maintenance; and c) based on the data collected, hire a consultant/firm for an independent impact assessment.



RESULTS MONITORING AND REPORTING GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 67 OF 72



Component)	connecting the relevant actors it closes the information gap about the opportunities and realistic cost savings that EE investments would allow (see footnote 117 for description of activity). ¹¹⁷ Resulting in output 9.	 and inform clients (see footnote 117 for description of activities) Existing communication teams and practices of local insurers and their networks of clients. Support for outreach by relevant governmental entities, such as the Ministry of Economy and the Salvadorian Energy National Council. Alliance with local business associations. International and local expertise will be sought providing ESTPs and SMEs with capacity in specific methodologies and types of technologies promoted by the program.
	The Droiget will promote the	
and sharing (Grant Component)	collection of information and dissemination of lessons learned and good practices in developing BANDESAL Financing Strategy to finance EE projects to exchange experience and replicate results in other regions with similar	 Use of existing web interface, LFI and client networks and capacity of BANDESAL.¹¹⁹ Use of existing IDB knowledge platforms for green financing, including <u>Klave Finanzas</u> <u>Verdes</u> and <u>http://finanzascarbono.org/</u>.
	challenges to EE. (see section E.2.2 and for activities see footnote 118). ¹¹⁸ Resulting in output 10.	

¹¹⁷ The following activities are to be conducted: a) Support in awareness raising and capacity building of beneficiaries (SMEs, ESTPs, LFIs) of the various tools developed under the program (methodologies to assess energy savings, standard contract, insurance policy, third party technical quality verification). The marketing and awareness raising strategy is expected to develop the capacities of technology providers to develop a new line of business: the sale of guaranteed energy savings instead of mere energy efficient technologies. The marketing strategy should support the development, diffusion and dissemination of information of new risk mitigation products, such as standard contracts, monitoring reporting and validation methodologies and ESI products.

¹¹⁹ See BANDESAL

¹¹⁸ The following activities are to be conducted: a) Support in the continuous monitoring and verification of program results, including lessons learned and potential standardization of processes and methodologies that could be promoted to spread the ESI model to additional sectors in the same country through knowledge sharing; b) Development of studies, webinars, presentations, newsletters and guidelines showing specific experiences in structuring ESI in El Salvador; c) Organization national and regional events to share experiences and disseminate knowledge products with other NDBs, LFIs, energy services and technology providers and potential project developers; d) Design and maintenance of dedicated web interfaces for the project and its activities to be disseminated under IDB dedicated NDB web pages, i.e. <u>Klave Finanzas</u> <u>Verdes</u>" and the <u>community of practices for Financial Institutions on green finance</u>.





H.2. Arrangements for Monitoring, Reporting and Evaluation

Summary of arrangements for monitoring results

1. As described in sections B.1. and C.3. the Project is expected to develop a set of standards and methodologies for the key EE technologies promoted under the Project. These standards and methodologies will serve to measure and monitor the actual EE savings at project level and calculate emissions reductions using emission factors. Given that the assessment of energy savings is the basis for the fulfillment of contractual agreements and insurance coverage promoted by the Project, it is assumed that project developers (ESTPs) and investor firms have incentives to track and monitor savings. The Project will ensure that the data provided by the project developers is accurate through the validation of project proposals and verification of energy savings (as described in sections B.1. and C.3).

The Project, through the Electronic Registry System of BANDESAL to be developed¹²⁰, will provide for interfaces for the ESTPs and investing firm to report on energy savings annually. This information should be maintained and compiled in the BANDESAL registry and <u>reported semi-annually</u> in an aggregated manner. It will also be the basis for the overall evaluation of the Project impact.

During the execution phase, semi-annual progress reports will be submitted no later than 60 days after the end of each semester. These reports will provide information about the overall progress in the execution of the Project. In addition, the financial statements of the program shall be audited annually by an internationally recognized auditing firm following relevant financial reporting standards. The independent auditing firm will also verify compliance with the Project's eligibility criteria, as well as with the appropriate application of the methodology agreed with the IDB to distribute GCF's concessionality (i.e. the success fee, either in the form of a rebate or an ex-post reduction in interest rates) among beneficiary firms. IDB will also ensure that corrective measures to be specified in the OR in case of noncompliance with the Project requirements will be undertaken by Bandesal.

The Project overall outcome / impact assessment (overall improvements in energy intensity towards the end of the Project) will be evaluated by an independent evaluator with the following methodology.

Methodology used to measure energy savings:

The measurement of energy savings of a project requires determining three different energy use scenarios: baseline, estimated and actual energy use as illustrated in Table 9 below.

Scenario			Data Source
1.	Baseline Expected future energy use of current equipment	Energy use of an existing equipment that has not been replaced	Historic data and measuring of performance of the existing equipment
2.	Estimated energy use Expected future energy use of new EE equipment	Potential energy use of an EE equipment that is NOT in operation	Based on manufacturer specifications
3.	Actual energy use	Actual energy use of the new and installed EE equipment in operation	Measuring the performance of new EE equipment

Table 9: Energy Use Scenarios

¹²⁰ Sub-component 1.6 in Section B.1. and description in Section C.3.



GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 69 OF 72



Measured energy use of new	
EE equipment in operation	

(1) $EnPi = \frac{Energy\ consumption}{Output\ (Delivered\ work)}$

For example: An engine in a factory that works for one day consumes 314 KWh and has an output of 15 HP would have an Energy performance Indicator (EnPI) = 22.1 KWh/HP.

The EnPI is then used to build the Baseline, the Estimated and the Actual energy use models over a given time period.

For example, to build the baseline of an electric motor it would be necessary to estimate the number of operating hours per year¹²¹. If the equipment is used for 10 hrs. per day, 5 days a week all year, and if the outcome is 15 HP per day then the Baseline can be modelled as follows:

10 hrs * 5 days/week * 52 weeks/ year = 2,600 hrs/year.

Baseline = 22.1 KW/HP * 15 Hp * 2,600 hrs/year

Baseline = 861,900 KWh /year

The Estimated energy use would be calculated from the EnPI provided by the manufacturer. An example for the electric motor could be EnPI (estimated) = 15 KWh/HP.

Estimated energy consumption = 15 KW/HP * 15 Hp * 2,600 hrs/year.

Estimated energy consumption = 585,000

Which means that the Expected energy savings would be:

Estimated Energy Savings = 861,900 KWh - 585,000 KWh

Estimated Energy Savings = 276,900 KWh;

To define the Energy Savings in percentage:

Estimated energy savings (%) = $\frac{\text{Baseline} - \text{Estimated}}{\text{Baseline}}$

Estimated Energy Savings = 32.12%

To calculate the Actual energy savings it is necessary to register the energy use and the output in HP of the new equipment. Normally, the technology provider would install a permanent metering system that facilitates the measurement and estimation of the (actual) EnPI.

Validation methodology

The programme contemplates putting in place standardized measurement, reporting and verification (MRV) procedures. The objective of these procedures is to ensure quality, reliability, accuracy, consistency, and transparency of the results achieved through EE measures. The verification procedures are carried out by a specialized third-party validation entity.

The MRV procedures are implemented during different phases of an individual energy savings project:

¹²¹ This Information can be provided by the firm using the equipment.



GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 70 OF 72





Evaluation phase: the Project is validated before the credit evaluation and approval process of a project. The validator has to evaluate the capacity of the EE project to deliver the promised energy savings. Furthermore, the validator validates the capacity (i.e. technical experience) of the Technology Provider to develop and implement the project. The validation is based on comparing the consumption of the existing equipment with the proposed new EE equipment.

Implementation and operation: The validator verifies the correct installation of the equipment, of the metering systems, and the appropriate disposal of the old equipment.

Project reporting: The validator verifies the results of the Project in case of a dispute between Client (investing firm) and the ESTP regarding the reported results (performance of the project).

To simplify and standardize the validation processes and procedures, the Project will develop standardized formats for the use by ESTPs and interested firms. The formats will be designed to concentrate the relevant information to conduct the activities mentioned above.

2. BANDESAL's second tier banking system and the specific electronic registry to be developed for the Project¹²² will allow for the tracking of detailed project information of each beneficiary firm, including investments in EE leveraged by the credit line from BANDESAL as well as other criteria, such as the management by project developers of eventual environmental and social risks. This information will serve for IDB supervision of the Project execution by BANDESAL and ensuring that eligibility requirements of the Project are complied with before funds are disbursed. It is expected that BANDESAL <u>reports semi-annually</u> on aggregated output indicators 6, 7, 8 and 9 based on these systems.

An evaluation towards the end of the Project of the impact of credit access and scaled up investments in EE by firms will be undertaken using a quasi-experimental assessment, through statistical matching and a differences-in-differences estimator to compare the beneficiary firms with similar non-beneficiary firms.

3. The overall Project execution will be <u>monitored via semi-annual reports</u> prepared by the executing agency and delivered to the IDB no later than 60 days after the end of each six-month period. These will reflect *information about all the output and outcome indicators*, and fulfillment of the sub-loan eligibility criteria.

4. The executing agency and the IDB will commission <u>a mid-term evaluation of the Project 24 months</u> after the first disbursement, or once 50% of the loan proceeds have been committed, whichever occurs first. This mid-term evaluation will be conducted by an independent evaluator. Progress toward the outcomes and outputs specified in the Section H will be evaluated to identify corrective actions as necessary. The executing agency will provide the information necessary for the IDB to produce an IDB project completion report (PCR) 90 days after the end of the execution period or the date of the last disbursement. Regular monitoring meetings will be scheduled. The monitoring and evaluation plan also includes a strategy for performing an impact evaluation beginning in the last year of Project implementation and includes a review of the financial management of the Project in line with IDB Bank policy.

5. The final evaluations referred to in points 1 and 2 above would be undertaken one year after the termination of the Project and will be conducted by an individual consultant/firm to support evaluation efforts, including establishment of a

¹²² Sub-component 1.6 in Section B.1. and description in Section C.3.


RESULTS MONITORING AND REPORTING

GREEN CLIMATE FUND FUNDING PROPOSAL | PAGE 71 OF 72

baseline, collection of data through surveys, their tabulation and the overall analysis (Sub-component 2.3 in Section B.1.). Please refer also to timeline of the Project in Annex 8.



I. Supporting Documents for Funding Proposal

- NDA No-objection Letter (Annex 1)
- Feasibility and Market Assessment ESI EI Salvador (Annex 2)
- Financial Model ESI El Salvador (Annex 3)
- BANDESAL Confirmation letter for co-financing commitment ESI EI Salvador (Annex 4)
- Project Confirmation Term Sheet ESI El Salvador (Annex 5)
- Environmental and Social Management Report ESI El Salvador (Annex 6)
- Appraisal Report or Due Diligence Report with recommendations (If applicable) n.a.
- Evaluation Report of the baseline project (If applicable) n.a.
- Map location of Project ESI El Salvador (Annex 7)
- Gantt Chart of Project implementation ESI El Salvador (Annex 8)
- Project Flow diagram ESI El Salvador (Annex 9)
- GHG and Economic Calculation ESI El Salvador (Annex 10)
- Financial Management and Procurement ESI EI Salvador (Annex 11)
- LAB-Analysis ESI Pilot Progress, Lessons Learned, and Replication Plan ESI EI Salvador (Annex 12)
- Gender Assessment (Annex 13)
- Procurement Plan for IDB-BANDESAL ESI Funding Proposal (Annex 14)

* Please note that a funding proposal will be considered complete only upon receipt of all the applicable supporting documents.

No-objection letter issued by the national designated authority

No-objection letter

To: The Green Climate Fund ("GCF")

Re: Funding proposal for the GCF by the Inter-American Development Bank regarding Energy Savings Insurance for private energy efficiency investments by Small and Medium-Sized Salvadoran Enterprises.

Dear Madam Cheikhrouhou,

We refer to the programme Energy Savings Insurance for private energy efficiency investments by Small and Medium-Sized Salvadoran Enterprises as included in the funding proposal submitted by the Inter-American Development Bank to us on July 30th 2015.

The undersigned is the duly authorized representative of the Deputy Ministry for Development Cooperation, the National Designated Authority of El Salvador.

Pursuant to GCF decision B.08/10, the content of which we acknowledge to have reviewed, we hereby communicate our no-objection to the programme Energy Savings Insurance for private energy efficiency investments by Small and Medium-Sized Salvadoran Enterprises as included in the funding proposal.

By communicating our no-objection, it is implied that:

- (a) The government of El Salvador has no-objection to the programme Energy Savings Insurance for private energy efficiency investments by Small and Medium-Sized Salvadoran Enterprises as included in the funding proposal;
- (b) The programme Energy Savings Insurance for private energy efficiency investments by Small and Medium-Sized Salvadoran Enterprises as included in the funding proposal is in conformity with El Salvador's national priorities, strategies and plans;
- (c) In accordance with the GCF's environmental and social safeguards, the programme Energy Savings Insurance for private energy efficiency investments by Small and Medium-Sized Salvadoran Enterprises as included in the funding proposal is in conformity with relevant

San Salvador, 02/06/2016

Re: Propuesta de financiamiento ante el Fondo Verde del Clima por el Banco Interamericano de Desarrollo en relación al Programa de Seguro de Ahorros Energéticos para Inversiones de Pequeñas y Medianas Empresas Salvadoreñas en Eficiencia Energética.

Estimada Sra. Cheikhrouhou

Hacemos referencia al Programa de Seguro de Ahorros Energéticos para Inversiones de Pequeñas y Medianas Empresas Salvadoreñas en Eficiencia Energética, como fue incluido en la propuesta de financiamiento presentada por el Banco Interamericano de Desarrollo (BID)en fecha 30 de julio de 2015.

El firmante es el debidamente autorizado representante del Viceministerio de Cooperación para el Desarrollo, la Autoridad Nacional Designada de El Salvador.

De conformidad con la decisión B.08/10 del FVC, cuyo contenido admitimos haber revisado, comunicamos nuestra no objeción al programa de Seguro de Ahorros Energéticos para Inversiones de Pequeñas y Medianas Empresas Salvadoreñas en Eficiencia Energética, tal como está incluido en la propuesta de financiamiento.

Al comunicar nuestra no objeción se entiende que:

- (a) El gobierno de El Salvador no tiene objeción al programa de Seguro de Ahorros Energéticos para Inversiones de Pequeñas y Medianas Empresas Salvadoreñas en Eficiencia Energética, tal como está incluido en la propuesta de financiamiento;
- (b) El programa de Seguro de Ahorros Energéticos para Inversiones de Pequeñas y Medianas Empresas Salvadoreñas en Eficiencia Energética, tal como está incluido en la propuesta de financiamiento está de conformidad con las prioridades, estrategias y planes nacionales de El Salvador;
- (c) En concordancia con las salvaguardas ambientales y sociales del FVC, el programa Seguro de Ahorros Energéticos para



No-objection letter

national laws and regulations.

We also confirm that our national process for ascertaining no-objection to the programme Energy Savings Insurance for private energy efficiency investments by Small and Medium-Sized Salvadoran Enterprises as included in the funding proposal has been duly followed.

We also confirm that our no-objection applies to all projects or activities to be implemented within the scope of the programme.

We acknowledge that this letter will be made publicly available on the GCF website.

Kind regards,

Inversiones de Pequeñas y Medianas Empresas Salvadoreñas en Eficiencia Energética, tal como está incluido en la propuesta de financiamiento está de conformidad con la legislación nacional y marcos regulatorios relevantes.

Asimismo, hago constar que nuestro proceso nacional para otorgar la no objeción al programa Seguro de Ahorros Energéticos para Inversiones de Pequeñas y Medianas Empresas Salvadoreñas en Eficiencia Energética, tal como está incluido en la propuesta de financiamiento ha sido seguido debidamente.

También confirmamos que nuestra no objeción aplica a todos los proyectos o actividades a realizarse dentro del alcance del programa.

Reconocemos que esta carta será puesta a disposición del público en la página web del FVC.

Saludos cordiales,



Jaime Alfredo Miranda Flamenco

Viceministro de Cooperación para el Desarrollo Deputy Ministry of Development Cooperation



En Antiguo Cuscatlán, departamento de La Libertad, a las once horas, del día dos de junio del año dos mil dieciséis. Ante mí, Diego José Góchez Aragón, Notario, del domicilio de la ciudad y departamento de San Salvador, comparece la señora Ute Irma Margarita Jokisch Gaede, quien es de cincuenta y nueve años de edad, Interprete/Traductor, del domicilio de la ciudad y departamento de San Salvador, persona a quien no conozco pero identifico por medio de su Documento Único de Identidad número cero dos cinco cinco dos siete cero dos - siete, con Número de Identificación Tributaria cero seis cero ocho - diecinueve cero nueve cincuenta y seis - cero cero uno - ocho, y ME DICE: Que a su leal saber y entender, el documento que antecede denominado "Carta de no Objeción", el cual ha sido suscrito por el Viceministro de Cooperación para el Desarrollo del Ministerio de Relaciones Exteriores, licenciado Jaime Alfredo Miranda Flamenco, es una traducción fiel y legítima la cual proviene del idioma inglés y ha sido trasladada al idioma castellano, por lo que ambos textos, inglés y castellano, son igualmente auténticos y reflejan de manera fiel la voluntad de las partes. Así se expresó la compareciente a quien le expliqué los efectos legales de este instrumento que consta en un folio útil, y leído que le fue por mí íntegramente en un solo acto sin interrupción, ratifica su contenido y firmamos. DOY FE.-

Ne pluse

EGOC IOTARIC



Environmental and social report(s) disclosure

Basic project/programme information	
Project/programme title	Energy Savings Insurance for private energy efficiency investments by Small and Medium-Sized Enterprises
Accredited entity	Inter-American Development Bank (IDB);
Environmental and social safeguards (ESS) category	Intermediation 3 (I3)
	<i>Note:</i> Environmental and social report disclosure not required for Category C and Intermediation 3 projects and programmes.
Environmental and social report disclosure information	
Description of report/disclosure	N/A
Date of disclosure on accredited entity's website	
Language(s) of disclosure	N/A
Link to disclosure	http://
Other link(s)	http://

_
